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## Q1FY21 result review

## Oil&Gas and Petrochemicals

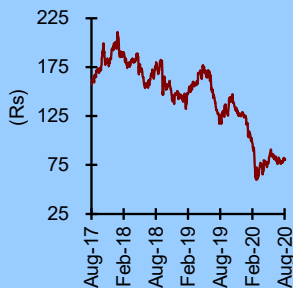
Target price: Rs124

### Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	63.0	60.4	60.4
Institutional investors	24.4	25.5	25.5
MFs and others	4.7	7.0	6.1
FIs/ Banks	0.7	0.7	0.8
Insurance	10.3	10.2	10.5
FII	8.6	7.6	8.1
Others	12.8	14.1	14.1

Source: www.nseindia.com

### Price chart



INDIA

# Oil and Natural Gas Corporation

**BUY**  
Maintained

Steep opex fall helps remain in the black despite low prices

**Rs80**

Oil and Natural Gas Corporation's (ONGC) Q1FY21 standalone and consolidated EPS was down 92-98% YoY, hit by fall in oil & gas realisation, sales volumes and other income. What is encouraging is ONGC remained in the black despite low oil & gas prices, which was due to 40% (US\$11.3/boe) YoY decline in opex. We believe oil is out of the woods and will gradually rise. Recent indications from Gol, that it is unlikely to divest its stake in PSUs like ONGC, are encouraging as divestment via ETFs has hurt ONGC's stock performance. Gas price reforms or deregulation could be a trigger. We reiterate **BUY** on ONGC.

- **Q1FY21 EPS plunged; 40% opex cut helped remain in the black:** Q1FY20 standalone EPS was down 92% YoY, hit by fall in oil and gas realisation by 53-29%, oil & gas sales volumes by 2.6-15.2% and other income by 39% YoY; own oil sales volumes were up 1.3% YoY. ONGC remained in the black despite oil price realisation at US\$28.7/bbl and gas at US\$2.66/mmbtu due to **fall in opex by 40% (US\$11.3/boe) YoY – statutory levies by 52% (US\$6.6/boe), cost of materials by 54% (US\$0.7/boe) and other expenses by 28% (US\$4/boe)**. Interest and exploration costs were down 24-52% YoY. Consolidated EPS fall was steeper at 98% YoY due to share of loss of associates of Rs5.6bn (profit of Rs2.7bn in Q1FY20) and subsidiary OVL of Rs3.3bn (Rs12.5bn profit in Q1FY20).
- **Oil out of the woods:** Brent is over US\$45/bbl now and US\$43.5/bbl in Q2FY21-TD vs US\$31.4/bbl in Q1FY21. OPEC+ output cut agreement up to Apr'22, fall in US oil output by over 2m b/d from peak and recovery in global oil demand from lows has helped ensure demand now exceeds supply and global inventory, which was up ~1.5bn boe in H1CY20, is gradually declining. Global oil demand recovery stalling and very weak refining margins, which has capped throughputs, are likely to cap oil prices in the near term. However, we believe oil is out of the woods.
- **Triggers – no stake sale & gas price deregulation:** The divestment (DIPAM) secretary has, in a recent interview, said there would be no PSU ETFs for quite some time and OFS would be of companies market wants and at valuations, which strike balance between interest of investors and Gol. This indicates divestment of Gol stake in ONGC is unlikely for quite some time; continuous divestment by way of ETFs in the last 2-3 years has hurt ONGC's stock performance. Under the prevailing gas pricing formula, gas prices would be ~US\$2.2/mmbtu in FY21E. Deregulation of gas prices could improve investor sentiment in ONGC and its earnings; spot LNG price, which was at US\$2.1/mmbtu in Q1FY21, is over US\$4/mmbtu now. The recent launch of gas trading exchange, and the oil minister's comments on gas price deregulation, are encouraging. We keep our earnings estimates and target price of Rs124/share (55% upside) unchanged. We reiterate **BUY** on ONGC.

Market Cap	Rs1,006bn/US\$13.8bn	Year to March	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	ONGC.BO / ONGC IN	Revenue (Rs bn)	4,536.8	4,250.0	3,163.7	3,174.2
Shares Outstanding (mn)	12,580.3	Net Income (Rs bn)	321.4	199.4	99.2	127.1
52-week Range (Rs)	149/52	EPS (Rs)	25.5	15.8	7.9	10.1
Free Float (%)	37.0	% Chg YoY	40%	-38%	-50%	28%
FII (%)	8.1	P/E (x)	3.1	5.0	10.1	7.9
Daily Volume (US\$'000)	30,119	CEPS (Rs)	44.4	37.0	32.8	35.4
Absolute Return 3m (%)	(5.5)	EV/E (x)	2.6	3.8	4.0	3.8
Absolute Return 12m (%)	(34.5)	Dividend Yield (%)	12%	8%	3%	4%
Sensex Return 3m (%)	17.5	RoCE (%)	13%	6%	5%	6%
Sensex Return 12m (%)	5.3	RoE (%)	15%	9%	5%	6%

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## Q1 standalone & consolidated EPS down 92-98% YoY

**Table 1: Q1FY21 standalone EPS down 92% YoY hit by fall in oil & gas realisation, sales volume & other income**

(Rs mn)	Q1FY21	Q1FY20	Change	Q4FY20	Change
Net sales	1,30,113	2,65,547	-51%	2,14,562	-39%
Total expenditure	82,305	1,37,729	-40%	1,59,067	-48%
<b>EBDITA</b>	<b>47,808</b>	<b>1,27,819</b>	<b>-63%</b>	<b>55,495</b>	<b>-14%</b>
<b>EBDITA margin</b>	<b>36.7%</b>	<b>48.1%</b>		<b>25.9%</b>	
Interest	4,918	6,461	-24%	8,695	-43%
Depreciation	38,223	37,380	2%	49,986	-24%
Other Income	4,368	7,167	-39%	13,256	-67%
PBT	9,035	91,145	-90%	10,070	-10%
Current tax	4,075	31,343	-87%	-7,938	NM
<b>Recurring PAT</b>	<b>4,960</b>	<b>59,802</b>	<b>-92%</b>	<b>18,008</b>	<b>-72%</b>
Exceptional items	0	0		-48,991	
<b>Reported PAT</b>	<b>4,960</b>	<b>59,802</b>	<b>-92%</b>	<b>-30,983</b>	<b>NM</b>
<b>Recurring EPS</b>	<b>0.4</b>	<b>4.8</b>	<b>-92%</b>	<b>1.4</b>	<b>-72%</b>
<b>Reported EPS</b>	<b>0.4</b>	<b>4.8</b>	<b>-92%</b>	<b>(2.5)</b>	<b>NM</b>

Source: Company data, I-Sec research

**Table 2: ONGC remained in black despite fall in oil & gas realisation due to fall in opex by 40% YoY**

(US\$/boe)	Q1FY21	Q1FY20	Change		Q4FY20	Change	
			YoY (%)	YoY absolute		QoQ (%)	QoQ absolute
<b>Opex</b>							
Statutory Levies	6.0	12.6	-52%	(6.6)	9.5	-36%	(3.5)
Cost of materials	0.6	1.3	-54%	(0.7)	2.1	-72%	(1.5)
Other expenses	10.0	14.0	-28%	(4.0)	19.8	-49%	(9.8)
<b>Total</b>	<b>16.7</b>	<b>27.9</b>	<b>-40%</b>	<b>(11.3)</b>	<b>31.4</b>	<b>-47%</b>	<b>(14.8)</b>
<b>Oil &amp; gas sales volumes (mmboe)</b>	<b>65.1</b>	<b>70.9</b>	<b>-8%</b>	<b>(5.8)</b>	<b>69.9</b>	<b>-7%</b>	<b>(4.8)</b>
<b>Exchange Rate (INR/US\$)</b>	<b>75.9</b>	<b>69.6</b>	<b>9%</b>	<b>6.3</b>	<b>72.4</b>	<b>5%</b>	<b>3.5</b>

Source: Company data, I-Sec research

**Table 3: ONGC's Q1FY21 oil price realisation down 53% YoY**

US\$/bbl	Q1FY21	Q1FY20	Change	Q4FY20	Change
<b>Oil price realisation</b>	28.7	66.3	-57%	49.01	-41%
<b>Price realisation (Rs/bbl)</b>	2,179	4,612	-53%	3,546	-39%

Source: Company data, I-Sec research

**Table 4: ONGC's gas price in Q1FY21 down 29% YoY**

	Q1FY21	Q1FY20	Change	Q4FY20	Change
Domestic gas price in US\$/mmbtu	2.7	4.1	-35%	3.6	-26%
Rs/mmscm	201	285	-29%	260	-22%

Source: Company data, I-Sec research

**Table 5: Q1FY21 oil sales volumes down 2.6% YoY, gas down 15.2% YoY and value added products' volumes down 28% YoY; own oil volume up 1.3% YoY**

	Q1FY21	Q1FY20	Change	Q4FY20	Change
<b>Sales volumes</b>					
<b>Crude oil (mmt)</b>					
ONGC	4.44	4.39	1.3%	4.69	-5%
JV	0.71	0.90	-21.3%	0.74	-5%
<b>Total crude oil</b>	<b>5.15</b>	<b>5.29</b>	<b>-2.6%</b>	<b>5.43</b>	<b>-5%</b>
<b>Natural gas (bcm)</b>					
ONGC	4.12	4.77	-13.6%	4.52	-9%
JV	0.11	0.22	-50.0%	0.15	-23%
<b>Total natural gas</b>	<b>4.24</b>	<b>5.00</b>	<b>-15.2%</b>	<b>4.66</b>	<b>-9%</b>
<b>Value added products (VAP)</b>	<b>0.68</b>	<b>0.95</b>	<b>-28.6%</b>	<b>0.87</b>	<b>-21%</b>

Source: Company data, I-Sec research

**Table 6: Consolidated Q1FY21 EPS down 98% YoY; share of loss of associates at Rs5.6bn**

<i>(Rs mn)</i>	<b>Q1FY21</b>	<b>Q1FY20</b>	<b>Change</b>	<b>Q4FY20</b>	<b>Change</b>
Net sales	6,24,961	10,95,458	-43%	10,44,890	-40%
Total expenditure	5,36,568	9,26,305	-42%	10,08,503	-47%
<b>EBDITA</b>	<b>88,393</b>	<b>1,69,153</b>	<b>-48%</b>	<b>36,387</b>	<b>143%</b>
<b>EBDITA margin</b>	14.1%	15.4%		3.5%	
Interest	14,977	15,194	-1%	21,913	-32%
Depreciation	58,479	57,579	2%	67,718	-14%
Other Income	10,794	15,428	-30%	35,254	-69%
PBT	25,731	1,11,807	-77%	-17,991	NM
Share of profit of associates	<b>-5,609</b>	<b>2,701</b>	<b>NM</b>	<b>2,986</b>	<b>NM</b>
Current tax	9,222	43,308	-79%	-39,523	NM
Minority interest	9,703	3,491	178%	-3,872	NM
<b>Recurring PAT</b>	<b>1,198</b>	<b>67,710</b>	<b>-98%</b>	<b>28,390</b>	<b>-96%</b>
Exceptional items	0	0		-90,285	
<b>Reported PAT</b>	<b>1,198</b>	<b>67,710</b>	<b>-98%</b>	<b>-61,894</b>	<b>NM</b>
<b>Recurring EPS</b>	<b>0.1</b>	<b>5.4</b>	<b>-98%</b>	<b>2.3</b>	<b>-96%</b>
<b>Reported EPS</b>	<b>0.1</b>	<b>5.4</b>	<b>-98%</b>	<b>(4.9)</b>	<b>NM</b>

Source: Company data, I-Sec research

## Financial summary

Table 7: Profit &amp; loss statement

(Rs bn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	4,536.8	4,250.0	3,163.7	3,174.2
Operating Expenses	3,696.4	3,638.3	2,577.6	2,539.1
EBITDA	748.2	521.5	511.8	560.9
% margins	16.5%	12.3%	16.2%	17.7%
Depreciation & Amortisation	237.0	266.3	313.4	318.3
Gross Interest	58.4	70.0	56.5	57.9
Other Income	77.3	85.3	69.2	69.2
Recurring PBT	530.1	270.4	211.2	253.9
Less: Taxes	209.1	75.1	69.1	83.0
Net Income (Reported)	305.5	109.1	99.2	127.1
Net Income (Recurring)	321.4	199.4	99.2	127.1

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs bn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Net Current Assets	22.2	(110.7)	(47.7)	(52.4)
Investments	1,066.2	954.6	272.0	172.0
Net Fixed Assets	1,189.6	1,263.1	1,654.1	1,785.4
Capital Work-in-Progress	908.4	964.5	1,263.1	1,363.4
Total Assets	4,082.8	4,121.1	4,092.4	4,276.3
<b>Liabilities</b>				
Borrowings	1,015.0	1,036.6	1,062.9	1,121.3
Deferred Tax Liability	269.1	314.2	244.0	242.2
Equity Share Capital	42.8	42.8	42.8	42.8
Face Value per share (Rs)	5.0	6.0	7.0	8.0
Reserves & Surplus*	2,126.6	2,026.9	2,093.3	2,174.9
Minority Interest	181.1	178.1	214.1	250.8
Net Worth	1,988.3	1,891.5	1,922.1	1,966.8
Total Liabilities	4,082.8	4,121.1	4,092.4	4,276.3

Source: Company data, I-Sec research

Table 9: Quarterly trend

(Rs bn, year ending March 31)

	Sep'19	Dec'19	Mar'20	Jun'20
Net sales	245	237	215	130
growth (YoY)	-12%	-14%	-20%	-51%
EBITDA	117	106	55	48
EBITDA Margin (%)	48%	46%	26%	37%
Other income	27	14	13	4
Add: Extraordinaries	-	-	-49	-
Recurring Net Profit	63	42	18	5

Source: Company data, I-Sec research

Table 10: Cashflow statement

(Rs bn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow before working capital changes	573.0	466.6	460.5	494.1
Working Capital Changes	29.4	261.0	(262.7)	(0.2)
Operating Cashflow	602.3	727.6	197.8	493.9
Capital Commitments	(449.2)	(637.9)	(978.4)	(681.2)
Cashflow from Investing Activities	(441.7)	(440.9)	(226.7)	(512.0)
Inc (Dec) in Borrowings	2.5	21.6	26.4	58.4
Dividend paid	(133.7)	(91.0)	(32.7)	(45.5)
Cashflow from Financing Activities	(131.2)	(69.5)	(6.3)	12.8
Chg. in Cash & Bank balances	29.4	217.2	(35.2)	(5.2)

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	25.5	15.8	7.9	10.1
Diluted Recurring EPS	24.3	8.7	7.9	10.1
Recurring Cash EPS	44.4	37.0	32.8	35.4
Dividend per share (DPS)	9.4	6.4	2.3	3.2
Book Value per share (BV)	172.4	165	169.8	176.3
<b>Growth Ratios (%)</b>				
Operating Income	49.2%	-50.1%	-22.2%	22.2%
EBITDA	30.5%	-30.3%	-1.8%	9.6%
Recurring Net Income	40.4%	-38.0%	-50.3%	28.1%
Diluted Recurring EPS	40.4%	-38.0%	-50.3%	28.1%
Diluted Recurring CEPS	21.4%	-16.6%	-11.4%	8.0%
<b>Valuation Ratios (x)</b>				
P/E	3.1	5.0	10.1	7.9
P/CEPS	1.8	2.2	2.4	2.2
P/BV	0.5	0.5	0.5	0.5
EV / EBITDA	2.6	3.8	4.0	3.8
EV / Operating Income	3.9	7.8	10.3	8.7
<b>Operating Ratios</b>				
Other Income / PBT (%)	14.6%	31.5%	32.8%	27.3%
Effective Tax Rate (%)	39.4%	27.8%	32.7%	32.7%
NWC / Total Assets (%)	-1.2%	3.2%	-1.5%	0.1%
D/E Ratio (%)	44.6%	47.3%	49.1%	50.4%
<b>Profitability Ratios (%)</b>				
Recurring Net Income Margins	7.1%	4.7%	3.1%	4.0%
RoCE	12.7%	6.1%	4.8%	5.8%
RoNW	15.3%	9.4%	4.7%	5.8%
Dividend Payout Ratio	36.8%	40.4%	29.2%	31.7%
Dividend Yield	11.8%	8.0%	2.9%	4.0%
EBITDA Margins	16.5%	12.3%	16.2%	17.7%

Source: Company data, I-Sec research

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