

ICICI Securities Limited
is the author and
distributor of this report

Company update

Oil&Gas and
Petrochemicals

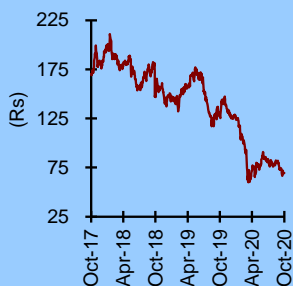
Target price: Rs124

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
FIs	8.6	7.6	8.1
Others	12.8	14.1	14.1

Source: www.nseindia.com

Price chart



Oil and Natural Gas Corporation

BUY

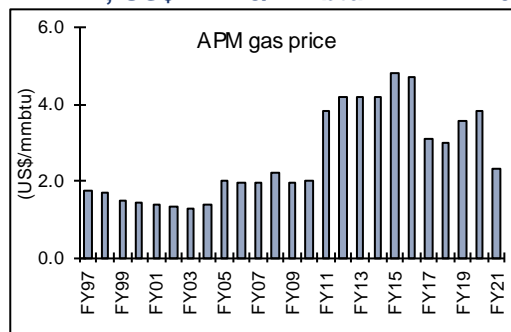
Maintained

Rs70

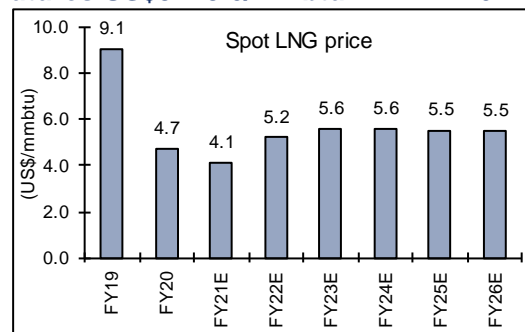
Making sense of news flow on gas pricing

A committee has been set up to suggest changes to the prevailing price formula under which gas price fell to US\$2/mmbtu in H2FY21. As per press reports, it may propose US\$1/mmbtu discount to JKM spot LNG as the floor price. We are optimistic that a floor price would soon be introduced, at which ONGC would make money (its average production cost is US\$3.7/mmbtu). Floor price may be US\$4.2/mmbtu, which ONGC has asked for since FY17, or linked to JKM spot LNG. Reports also suggest GoI may gradually deregulate price of nomination acreage (APM) gas over not more than six years. This may be the roadmap for uniform market-determined price for all gas produced in India, which the oil minister has often talked of. GoI on 7th Oct'20 approved the procedure to be followed to ensure price of deregulated gas was truly market-determined. We expect gains for ONGC in the near term from the imminent revision in gas price formula and in the medium term from gas price deregulation. Reiterate BUY.

- ▶ **ONGC's gas price US\$2.3-3.8/mmbtu in FY17-FY21 vs US\$4.2-4.8/mmbtu in FY11-FY16:** In FY97-FY10, price of ONGC's APM gas was Rs2,250-3,200/mscm (US\$1.3-2.2/mmbtu). In Jun'10 it was hiked to the same level as the price of gas from NELP block KG D6, which was US\$4.2/mmbtu. From Nov'14, it was linked to price in the US, Russia, Canada and UK. Price under this formula was US\$4.2-5.6/mmbtu in the first 17 months, but US\$2.0-4.1/mmbtu thereafter.

APM gas price US\$2.3-3.8/mmbtu in FY17-21; US\$4.2-4.8/mmbtu in FY11-16


Source: PPAC, I-Sec research

JKM may be floor price for APM; JKM futures US\$5.2-5.6/mmbtu in FY22-26E


Source: Reuters, CME, I-Sec research

- ▶ **ONGC's gas price outlook:** GoI deregulated the price of gas produced from deepwater fields post-Jan'16, coal bed methane, incremental output from North-East post-Jul'18 and under development plans approved after Feb'19. This will ensure that price of ONGC's incremental gas output will be market-determined. We expect a floor price of US\$4.2/mmbtu, or that linked to JKM spot LNG (US\$4.2-4.6/mmbtu in FY22-FY26E if US\$1/mmbtu discount to JKM) to be soon introduced for APM gas followed eventually by phased deregulation over the next few years.

Market Cap	Rs893bn/US\$12.2bn	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)	2.8	4.5	9.0	7.0
Daily Volume (US\$'000)	24,134	CEPS (Rs)	44.4	37.0	32.8	35.4
Absolute Return 3m (%)	(7.8)	EV/E (x)	2.5	3.6	3.8	3.6
Absolute Return 12m (%)	(14.0)	Dividend Yield (%)	13%	9%	3%	5%
Sensex Return 3m (%)	9.0	RoCE (%)	13%	6%	5%	6%
Sensex Return 12m (%)	7.4	RoE (%)	15%	9%	5%	6%

Research Analysts:

Vidyadhar Ginde

Vidyadhar.ginde@icicisecurities.com
+91 22 6637 7274

Aksh Vashishth

aksh.vashishth@icicisecurities.com
+91 22 6637 7386

Gas pricing history in India

Table 1: India gas price history

Year	Event
Pre 1997	Cost plus pricing
1997-Jun'05	Linked to fuel oil subject to a ceiling of Rs2,850/mscm (US\$1.85/mmbtu)
Jul'05	Gas price raised to Rs3,200/mscm (US\$2.0/mmbtu)
Jun'10	Gas price raised to US\$4.2/mmbtu
Jun'13	CCEA approves gas price as proposed by Rangarajan committee from Apr'14
Jan'14	Gas price hike notified
Mar'14	UPA government seeks Election Commission approval for gas price hike; EC asks deferral until the end of the elections
25-Jun-14	NDA government defers gas price hike by three months
24-Sep-14	Defers decision until 15 Nov'14
18-Oct-14	Gas price linked to price of gas in US, UK, Russia and Canada w.e.f. 1 st Nov'14; works out to US\$5.61/mmbtu on NCV basis for 1 st Nov'14 to Mar'15
21-Mar-16	Price of gas produced post-Jan'16 from ultra deep water / deep water/ high pressure - high temperature areas made market-determined, but subject to ceiling linked to price of alternate fuels
01-Apr-16	Gas price as per formula falls to US\$3.4/mmbtu in H1FY17
11-Apr-17	Market-determined price for coal bed methane announced
14-Aug-18	Pricing and marketing freedom announced for gas production in North-East India, which commenced after 1 st Jul'18
21-Feb-19	Marketing and pricing freedom announced for gas produced from discoveries whose field development plan (FDP) was approved after Feb'19
Aug'20	Committee set up to review and suggest modifications to prevailing gas pricing formula
07-Oct-20	Gol approved procedure to be followed to ensure truly market-determined price for gas entitled to pricing and marketing freedom. Until now, price of such gas was discovered by the producer and in many cases an effective floor price was set, whereby price discovered was not truly market-determined.

Source: PIB, PPAC, I-Sec research

Financial summary

Table 2: Profit & 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 3: Balance sheet

(Rs bn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
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
Liabilities				
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 4: 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 5: 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 6: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
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
Growth Ratios (%)				
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%
Valuation Ratios (x)				
P/E	2.8	4.5	9.0	7.0
P/CEPS	1.6	1.9	2.2	2.0
P/BV	0.4	0.4	0.4	0.4
EV / EBITDA	2.5	3.6	3.8	3.6
EV / Operating Income	3.6	7.3	9.8	8.3
Operating Ratios				
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%
Profitability Ratios (%)				
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	13.3%	9.0%	3.3%	4.5%
EBITDA Margins	16.5%	12.3%	16.2%	17.7%

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92, Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, *Vidyadhar Ginde (A.C.A. GRAD.CWA); Aksh Vashishth, MBA*; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report. *Vidyadhar Ginde (A.C.A. GRAD.CWA)*, Research Analyst of this report, owns insignificant (900) number of equity shares in ONGC mentioned in the report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.