

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	ONGC IN
Equity Shares (m)	12,833
M.Cap.(INRb)/(USD\$b)	907 / 12.1
52-Week Range (INR)	141 / 52
1, 6, 12 Rel. Per (%)	-3/-44/-56
12M Avg Val (INR M)	1877

#### Financials & Valuations (cons.) (INR b)

Y/E March	2020	2021E	2022E
Sales	4,250	3,016	3,911
EBITDA	612	433	574
Adj. PAT	168	124	229
Adj. EPS (INR)	13.1	9.7	17.8
EPS Gr. (%)	-51.8	-26.2	84.1
BV/Sh.(INR)	161.3	167.8	181.2

#### Ratios

Net D:E	0.5	0.5	0.4
RoE (%)	7.9	5.9	10.2
RoCE (%)	6.3	4.8	7.6
Payout (%)	66.9	27.9	24.9

#### Valuations

P/E (x)	5.5	7.4	4.0
P/BV (x)	0.4	0.4	0.4
EV/EBITDA (x)	3.1	4.8	3.3
Div. Yield (%)	6.9	3.0	5.3
FCF Yield (%)	4.1	-15.3	27.4

#### Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	60.4	60.4	63.0
DII	17.5	17.4	16.0
FII	7.7	8.1	8.2
Others	14.4	14.1	12.8

FII Includes depository receipts

**CMP: INR72**

**TP: INR90 (+25%)**

**Buy**

#### Sales volumes in line; development of new fields remain key

- Oil and Gas sales and net realization (USD41.4/bbl; -31% YoY) stood in line with estimates. Net sales came in line with est. at INR169b (-31% YoY). We have built in oil/gas production at 23.3mmt/24.8bcm for FY21, as per the management's earlier guidance.
- Currently, OPEC+ production cuts stand at 7.7mnbopd (pertaining to Aug'20) and the group is scheduled to meet on 30th Nov'20 and 1st Dec'20 to decide on easing cuts by an additional 2mnbopd from Jan'21.
- We forecast a crude oil price of ~USD45/bbl for 2HFY21 and expect prices to remain stable around current levels in the medium term. However, we highlight that a change of USD5/bbl in oil price realization would raise ONGC's EBITDA (consolidated/SA) by 7%/12% for FY22.
- Despite the delay, ONGC is expected to grow its gas production in FY22, with efforts to arrest the decline in oil production from age-old fields (accounting for 60–70% of total oil production). Maintain **Buy**.

#### ONGC recorded an impairment of INR12.4b

- EBITDA was higher than est. at INR84b (-37% YoY). The company recorded an impairment loss of INR12.4b, post assessment of the implications of the pandemic on its business. Reported PAT stood at INR29b (-54% YoY), while adj. PAT stood at INR38b (-40% YoY) – with a tax rate of 27.9%.
- The company continues to remain with the previous tax regime and would take a decision on moving to the new tax regime (of 25.2%) by Dec'20 (as guided earlier), after evaluating crude prices over the next couple of months and its impact on tax.
- For 1HFY21, EBITDA stood at INR143b (-49% YoY), with reported PAT at INR34b (-72% YoY). Adjusting for an exceptional item in 2Q, adj. PAT for 1HFY21 stood at INR43b (-65% YoY).

#### Operational parameters for 2QFY21

- Crude sales came in at 5.1mmt (-6% YoY, -2% QoQ), with production down ~3% YoY at 5.6mmt. Gas sales stood at 4.6mmt (-7% YoY, +7% QoQ), with production down ~6% YoY at 5.9bcm (+6% QoQ).
- Value Added Product (VAP) sales stood at 836tmt (-2% YoY, +23% QoQ).
- For 1HFY21, net realization was down 45% YoY at USD35/bbl; with oil sales down 5% YoY at 10.2mmt, gas sales down 11% YoY at 8.8bcm and VAP sales down 16% YoY at 1,516tmt.

#### Valuation and view

- Capex plan for FY21 stands ~INR260b, with some capex (~INR60b) flowing into next year as few projects are impacted due to COVID-19.
- ONGC has guided that KG basin will see some delay in production as many vendors have enforced force majeure. Although gas production has been delayed, we expect a significant jump over the next 3-4 years led by various projects that the company has been working on. Oil production is expected to remain flat.

Swarnendu Bhushan- Research Analyst (Swarnendu.Bhushan@MotilalOswal.com)

Sarfraz Bhimani - Research Analyst (Sarfraz.Bhimani@MotilalOswal.com)

**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Variable cost of production is low. Despite domestic gas (APM) price ceiling going down, production from KG basin would not be impacted.
- The OPEC+ cuts would continue until Apr'22 as per the deal announced in Apr'20. With demand rising, OPEC+ may raise production. This is likely to moderate any change in global oil demand or increase in production by shale oil producers or other oil-producing nations, thus keeping oil prices in the USD50–60/bbl range. We also don't expect any subsidies in such a benign crude price environment.
- In FY20, ONGC has made total 12 discoveries (seven onshore, five offshore); of which seven are prospects (three onshore, four offshore) and five are pools (four onshore, one offshore). The management has notified seven new discoveries (four pools and three prospects) in FY21 so far.
- We model in flattish oil production for the next two years, while building in gas production growth of ~10mmscmd over the next two years (FY22-23).
- ONGC is trading at 3.3x FY22 EV/EBITDA and 4x FY22 P/E. We value the company at 10x Sep'22E adj. EPS of INR6.4 and add value of investments to arrive at a target price of INR90/share. Reiterate **Buy**.

## Standalone - Quarterly earning model

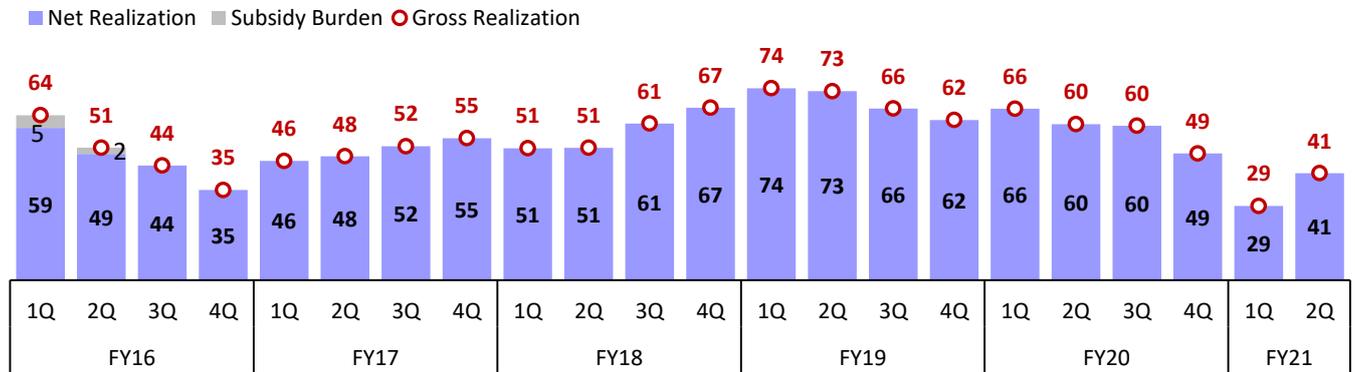
(INR b)

Y/E March	FY20				FY21				FY20	FY21	FY21 2QE	Var vs est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
<b>Net Sales</b>	<b>265.5</b>	<b>244.9</b>	<b>237.1</b>	<b>214.6</b>	<b>130.1</b>	<b>169.2</b>	<b>176.2</b>	<b>180.6</b>	<b>962.1</b>	<b>656.1</b>	<b>166.4</b>	<b>2%</b>
YoY Change (%)	-2.4	-12.5	-14.4	-19.8	-51.0	-30.9	-25.7	-15.8	-12.3	-31.8	-32.0	
<b>EBITDA</b>	<b>151.1</b>	<b>132.9</b>	<b>123.0</b>	<b>85.9</b>	<b>59.1</b>	<b>84.4</b>	<b>72.2</b>	<b>66.7</b>	<b>492.9</b>	<b>282.4</b>	<b>65.9</b>	<b>28%</b>
Margins (%)	56.9	54.3	51.9	40.0	45.4	49.9	41.0	37.0	51.2	43.0	39.6	
Depreciation	61.6	62.6	70.2	80.4	49.5	51.3	53.7	58.2	274.7	212.6	52.9	-3%
Interest	6.5	6.8	6.3	8.7	4.9	3.2	5.5	8.3	28.2	21.9	5.5	-42%
Other Income	7.5	26.9	14.0	13.3	4.4	22.4	16.6	23.1	61.6	66.4	28.8	-23%
<b>PBT before EO expense</b>	<b>90.6</b>	<b>90.4</b>	<b>60.5</b>	<b>10.1</b>	<b>9.0</b>	<b>52.3</b>	<b>29.6</b>	<b>23.3</b>	<b>251.6</b>	<b>114.3</b>	<b>36.4</b>	<b>44%</b>
Extra-Ord expense	0.0	0.0	0.0	49.0	0.0	12.4	0.0	0.0	49.0	12.4	0.0	
<b>PBT</b>	<b>90.6</b>	<b>90.4</b>	<b>60.5</b>	<b>-38.9</b>	<b>9.0</b>	<b>39.9</b>	<b>29.6</b>	<b>23.3</b>	<b>202.6</b>	<b>101.9</b>	<b>36.4</b>	<b>10%</b>
Tax	31.5	27.8	18.3	-7.9	4.1	11.1	9.9	7.8	69.6	32.8	12.1	-8%
Rate (%)	34.8	30.7	30.2	20.4	45.1	27.9	33.3	33.3	34.4	32.2	33.3	
<b>Reported PAT</b>	<b>59.0</b>	<b>62.6</b>	<b>42.3</b>	<b>-31.0</b>	<b>5.0</b>	<b>28.8</b>	<b>19.8</b>	<b>15.6</b>	<b>133.0</b>	<b>69.1</b>	<b>24.3</b>	<b>19%</b>
<b>Adj PAT</b>	<b>59.0</b>	<b>62.6</b>	<b>42.3</b>	<b>8.0</b>	<b>5.0</b>	<b>37.7</b>	<b>19.8</b>	<b>15.6</b>	<b>172.0</b>	<b>78.0</b>	<b>24.3</b>	<b>55%</b>
YoY Change (%)	-3.9	-24.2	-48.8	-80.2	-91.6	-39.8	-53.2	94.1	-35.6	-54.6	-61.3	
Margins (%)	22.2	25.6	17.8	3.7	3.8	22.3	11.2	8.6	17.9	11.9	14.6	
<b>Key Assumptions (USD/bbl)</b>												
Fx rate (INR/USD)	69.6	70.3	71.2	72.4	75.9	74.4	73.9	74.0	70.9	74.6	74.4	0%
Net Oil Realization	66.3	60.3	59.7	49.0	28.7	41.4	45.0	45.0	58.8	40.0	40.0	3%
Crude oil sold (mmt)	5.3	5.4	5.2	5.4	5.2	5.1	5.2	5.2	21.3	20.7	5.3	-4%
Gas sold (bcm)	5.0	4.9	4.8	4.7	4.2	4.6	4.9	5.7	19.4	19.4	4.4	4%
VAP sold (tmt)	952.0	850.0	890.0	866.0	680.0	836.0	858.1	858.1	3,558.0	3,232.2	831.4	1%

E: MOFSL Estimates

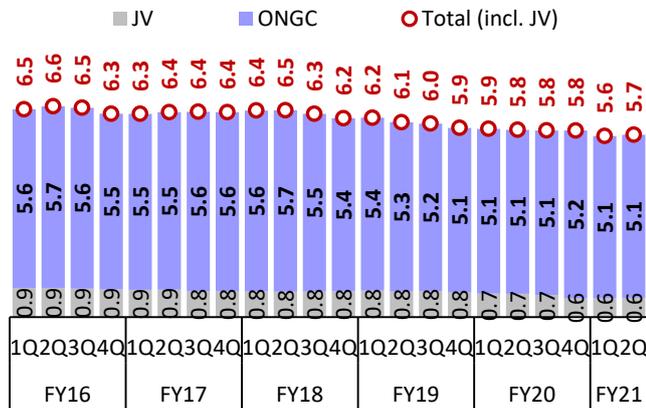
## Key charts from the quarter

Exhibit 1: Oil price realization at USD41/bbl (USD/bbl)



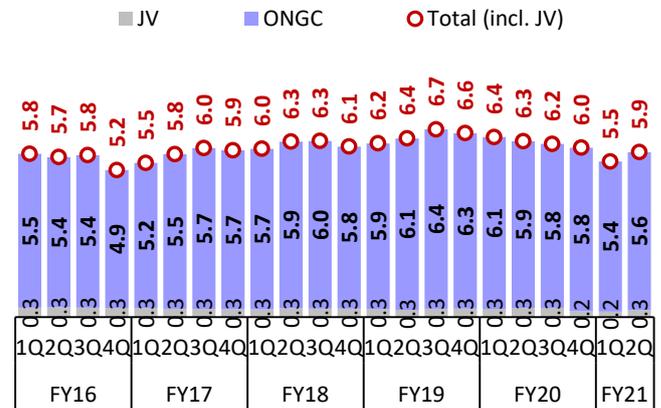
Source: Company, MOFSL

Exhibit 2: Oil production (mmt)



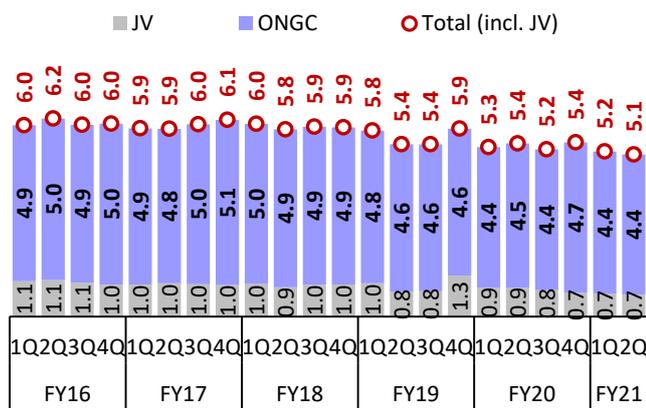
Source: Company, MOFSL

Exhibit 3: Gas production (bcm)



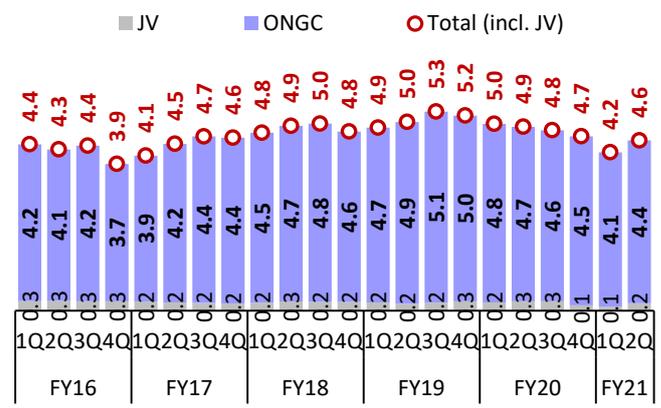
Source: Company, MOFSL

Exhibit 4: Oil sales (mmt)



Source: Company, MOFSL

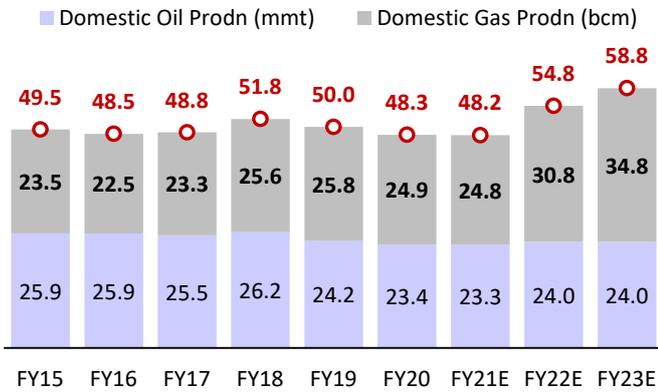
Exhibit 5: Gas sales (bcm)



Source: Company, MOFSL

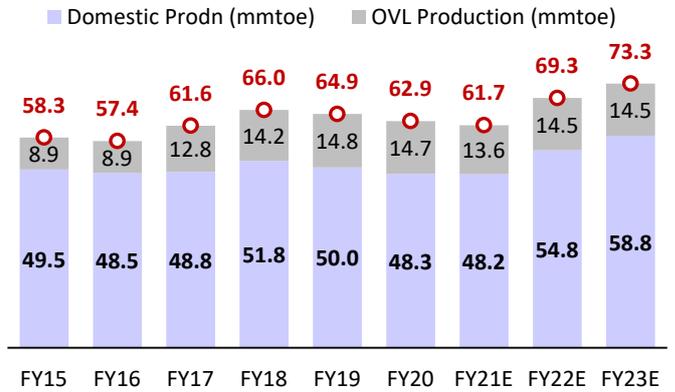
## Story in charts

**Exhibit 6: Oil production to remain flat (mmt)**



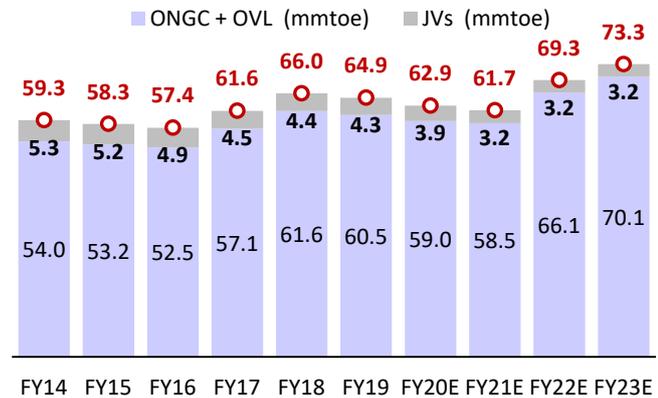
Source: Company, MOFSL

**Exhibit 7: Production at OVL to remain stable**



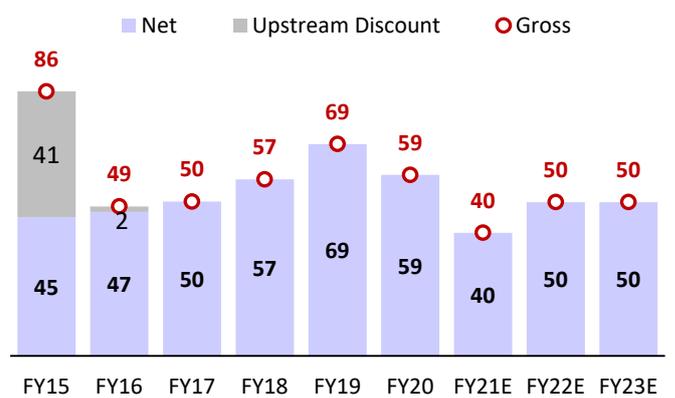
Source: Company, MOFSL

**Exhibit 8: JV contribution to shrink**



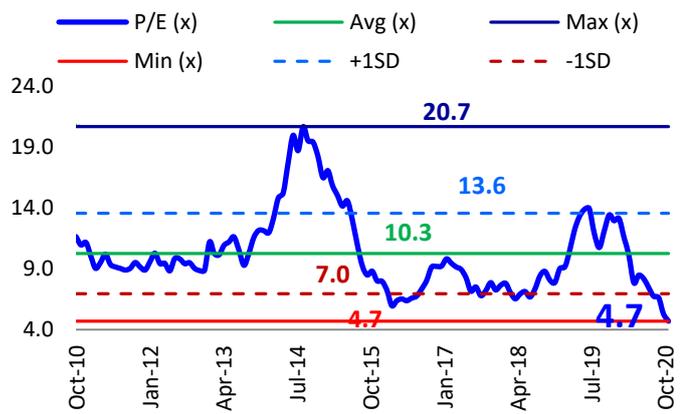
Source: Company, MOFSL

**Exhibit 9: Realization for ONGC (USD/bbl)**



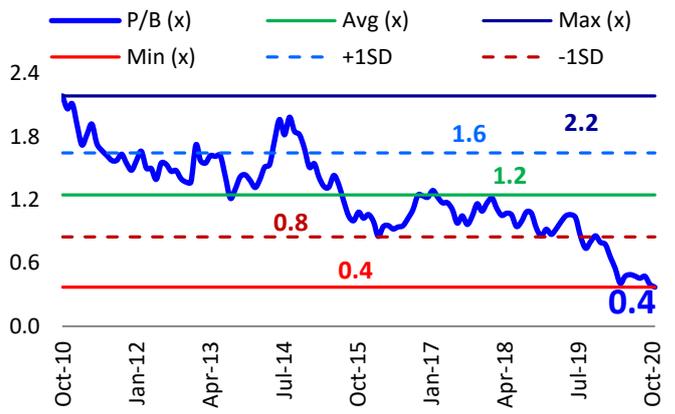
Source: Company, MOFSL

**Exhibit 10: ONGC: One year forward P/E**



Source: MOFSL

**Exhibit 11: ONGC: One year forward P/B**



Source: MOFSL

## Financials and Valuations (conso)

### Consolidated - Income Statement

(INR b)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Total Income from Operations</b>	<b>1,357</b>	<b>3,257</b>	<b>3,622</b>	<b>4,537</b>	<b>4,250</b>	<b>3,016</b>	<b>3,911</b>	<b>4,017</b>
Change (%)	-15.7	140.1	11.2	25.2	-6.3	-29.0	29.7	2.7
<b>EBITDA</b>	<b>452</b>	<b>580</b>	<b>644</b>	<b>840</b>	<b>612</b>	<b>433</b>	<b>574</b>	<b>594</b>
Margin (%)	33.3	17.8	17.8	18.5	14.4	14.4	14.7	14.8
Depreciation	225	254	306	329	357	296	287	287
<b>EBIT</b>	<b>228</b>	<b>326</b>	<b>338</b>	<b>511</b>	<b>255</b>	<b>137</b>	<b>287</b>	<b>307</b>
Int. and Finance Charges	38	36	50	58	70	64	64	57
Other Income	81	93	75	77	85	96	101	107
<b>PBT bef. EO Exp.</b>	<b>271</b>	<b>383</b>	<b>362</b>	<b>530</b>	<b>270</b>	<b>169</b>	<b>324</b>	<b>357</b>
EO Items	-79	6	2	-16	-90	-12	0	0
<b>PBT after EO Exp.</b>	<b>192</b>	<b>389</b>	<b>365</b>	<b>514</b>	<b>180</b>	<b>157</b>	<b>324</b>	<b>357</b>
Total Tax	70	125	131	209	75	52	108	119
Tax Rate (%)	36.2	32.3	36.0	40.7	41.7	33.3	33.3	33.3
Share of associates/JVs/Minority int	-9	-28	-27	-34	-11	-11	-12	-13
<b>Reported PAT</b>	<b>131</b>	<b>292</b>	<b>261</b>	<b>339</b>	<b>116</b>	<b>116</b>	<b>229</b>	<b>251</b>
<b>Adjusted PAT</b>	<b>174</b>	<b>288</b>	<b>259</b>	<b>349</b>	<b>168</b>	<b>124</b>	<b>229</b>	<b>251</b>
Change (%)	-5.0	64.9	-9.9	34.6	-51.8	-26.2	84.1	9.9
Margin (%)	12.9	8.8	7.2	7.7	4.0	4.1	5.8	6.3

### Consolidated - Balance Sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	43	64	64	63	63	63	63	63
Total Reserves	1,935	1,880	1,963	2,106	2,007	2,090	2,262	2,451
<b>Net Worth</b>	<b>1,978</b>	<b>1,944</b>	<b>2,028</b>	<b>2,169</b>	<b>2,070</b>	<b>2,153</b>	<b>2,325</b>	<b>2,514</b>
Minority Interest	27	133	156	181	178	178	178	178
Total Loans	445	744	993	1,015	1,037	1,244	1,120	1,008
Deferred Tax Liabilities	264	352	391	450	435	435	435	435
<b>Capital Employed</b>	<b>2,937</b>	<b>3,173</b>	<b>3,568</b>	<b>3,815</b>	<b>3,719</b>	<b>4,010</b>	<b>4,057</b>	<b>4,135</b>
Gross Block	2,666	3,328	3,683	3,983	4,382	4,491	4,583	4,659
Less: Accum. Deprn.	1,156	1,358	1,590	1,827	2,093	2,389	2,691	2,999
<b>Net Fixed Assets</b>	<b>1,509</b>	<b>1,969</b>	<b>2,093</b>	<b>2,156</b>	<b>2,289</b>	<b>2,102</b>	<b>1,891</b>	<b>1,660</b>
Goodwill on Consolidation	153	142	142	141	142	142	142	142
Capital WIP	219	214	207	299	459	282	353	414
Exploratory wells under progress	358	377	401	392	379	747	900	1,083
<b>Total Investments</b>	<b>407</b>	<b>707</b>	<b>667</b>	<b>675</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>763</b>	<b>1,029</b>	<b>1,048</b>	<b>1,252</b>	<b>1,242</b>	<b>1,212</b>	<b>1,425</b>	<b>1,510</b>
Inventory	99	299	305	351	331	238	308	316
Account Receivables	95	139	156	175	115	103	133	137
Cash and Bank Balance	277	132	51	48	57	90	162	195
Loans and Advances	25	31	33	46	44	44	44	44
<b>Curr. Liability &amp; Prov.</b>	<b>472</b>	<b>1,266</b>	<b>990</b>	<b>1,100</b>	<b>1,293</b>	<b>975</b>	<b>1,154</b>	<b>1,175</b>
Account Payables	460	985	694	778	920	602	781	802
Provisions	12	281	296	322	373	373	373	373
<b>Net Current Assets</b>	<b>291</b>	<b>-236</b>	<b>58</b>	<b>152</b>	<b>-51</b>	<b>236</b>	<b>271</b>	<b>335</b>
<b>Appl. of Funds</b>	<b>2,937</b>	<b>3,173</b>	<b>3,568</b>	<b>3,815</b>	<b>3,719</b>	<b>4,010</b>	<b>4,057</b>	<b>4,135</b>

E: MOFSL estimates

## Financials and Valuations

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>EPS</b>	<b>13.6</b>	<b>22.4</b>	<b>20.2</b>	<b>27.2</b>	<b>13.1</b>	<b>9.7</b>	<b>17.8</b>	<b>19.6</b>
Cash EPS	31.1	42.2	44.0	52.8	40.9	32.8	40.2	42.0
BV/Share	154.1	151.5	158.0	169.0	161.3	167.8	181.2	195.9
DPS	5.7	6.9	6.6	6.9	5.0	2.2	3.8	4.1
Payout (%)	66.8	36.0	38.0	31.3	66.9	27.9	24.9	24.7
<b>Valuation (x)</b>								
P/E	5.3	3.2	3.6	2.6	5.5	7.4	4.0	3.7
Cash P/E	2.3	1.7	1.6	1.4	1.8	2.2	1.8	1.7
P/BV	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
EV/Sales	0.8	0.5	0.5	0.4	0.4	0.7	0.5	0.4
EV/EBITDA	2.4	2.6	2.9	2.2	3.1	4.8	3.3	2.9
Dividend Yield (%)	7.9	9.7	9.2	9.5	6.9	3.0	5.3	5.7
FCF per share	36.5	13.3	-15.0	14.1	3.0	-11.0	19.7	16.1
<b>Return Ratios (%)</b>								
RoE	9.2	14.7	13.0	16.6	7.9	5.9	10.2	10.4
RoCE	8.3	11.1	9.2	11.3	6.3	4.8	7.6	7.9
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	0.5	1.0	1.0	1.1	1.0	0.7	0.9	0.9
Asset Turnover (x)	0.5	1.0	1.0	1.2	1.1	0.8	1.0	1.0
Inventory (Days)	27	33	31	28	28	29	29	29
Debtor (Days)	26	16	16	14	10	12	12	12
Creditor (Days)	124	110	70	63	79	73	73	73
<b>Leverage Ratio (x)</b>								
Current Ratio	1.6	0.8	1.1	1.1	1.0	1.2	1.2	1.3
Interest Cover Ratio	6.0	9.1	6.8	8.8	3.6	2.1	4.5	5.3
Net Debt/Equity	0.1	0.3	0.5	0.4	0.5	0.5	0.4	0.3

### Consolidated - Cash Flow Statement

(INR b)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	192	389	365	514	180	157	324	357
Depreciation	164	202	231	237	266	296	287	287
Change in deferred tax	93	87	41	59	-6	0	0	0
Direct Taxes Paid	-70	-125	-131	-209	-75	-52	-108	-119
(Inc)/Dec in WC	-126	382	-376	-97	212	-254	38	-31
<b>CF from Operations</b>	<b>254</b>	<b>935</b>	<b>130</b>	<b>504</b>	<b>577</b>	<b>147</b>	<b>541</b>	<b>494</b>
<b>CF from Operating incl EO</b>	<b>486</b>	<b>847</b>	<b>180</b>	<b>564</b>	<b>585</b>	<b>158</b>	<b>553</b>	<b>507</b>
(Inc)/Dec in FA	-18	-676	-372	-383	-547	-300	-300	-300
<b>Free Cash Flow</b>	<b>468</b>	<b>171</b>	<b>-192</b>	<b>181</b>	<b>38</b>	<b>-142</b>	<b>253</b>	<b>207</b>
<b>CF from Investments</b>	<b>-340</b>	<b>-964</b>	<b>-334</b>	<b>-390</b>	<b>-383</b>	<b>-300</b>	<b>-300</b>	<b>-300</b>
Inc/(Dec) in Debt	-73	299	249	22	22	207	-124	-112
Dividend Paid	-88	-105	-99	-106	-77	-32	-57	-62
CF from Fin. Activity	-31	-27	72	-176	-194	175	-181	-174
<b>Inc/Dec of Cash</b>	<b>116</b>	<b>-145</b>	<b>-81</b>	<b>-2</b>	<b>9</b>	<b>33</b>	<b>72</b>	<b>33</b>
Opening Balance	161	277	132	51	48	57	90	162
<b>Closing Balance</b>	<b>277</b>	<b>132</b>	<b>51</b>	<b>48</b>	<b>57</b>	<b>90</b>	<b>162</b>	<b>195</b>

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

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