# Oil & Natural Gas Corporation (ONGC)

CMP: ₹ 114 | Target: ₹ 110 (-3%) | Target Period: 12 months | **HOLD**

August 19, 2021

Result Update

## Oil price trend key to future performance

**About the stock:** Oil & Natural Gas Corporation (ONGC) is primarily engaged in exploration, development and production of crude oil and natural gas.

- ONGC's crude oil production has been in the range of 54-63% of total domestic oil production in FY11-21
- ONGC is also a play on the refining sector via its subsidiaries

**Q1FY22 Results:** ONGC reported steady Q1FY22 results.

- Revenues rose 8.6% QoQ to ₹ 23021.6 crore (our estimate: ₹ 2219.3 crore)
- EBITDA rose 20% QoQ to ₹ 12152.8 crore (our estimate: ₹ 11256.8 crore)
- PAT was at ₹ 4334.8 crore, down 35.6% QoQ as the company had reported exceptional gain of ₹ 2613.2 crore in Q4FY21

**What should investors do?** ONGC's share price has declined over the past five years due to a decline in domestic oil & gas production. Due to lower production growth on a sustainable basis, despite cheaper valuations, we recommend that long term investors avoid the stock

- We retain our HOLD rating on the stock

**Target Price and Valuation:** We value ONGC at ₹ 110 i.e. ₹ 90 for core oil & gas business and ₹ 20 for subsidiaries and other investments.

**Key triggers for future price performance:**

- Sustained higher crude oil prices and gas realisations can result in better profitability
- Ramp-up in oil and gas production from new fields
- Value unlocking from subsidiaries and other investments & lower holding company discount on investments
- High dividend yield and payout ratio

**Alternate Stock Idea:** Besides ONGC, in our oil & gas coverage we also like Gail.

- Gail is India's leading gas transmission company. It is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with a target price of ₹ 175

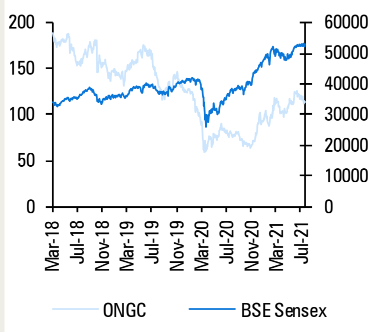
### Particulars

| Particular | Amount |
|---|---|
| Market Capitalization (₹ Crore | 1,43,415.5 |
| Total Debt (FY20) (₹ Crore) | 19,001.3 |
| Cash and Investments (FY20 | 968.2 |
| EV (₹ Crore) | 1,61,448.6 |
| 52 week H/L | 128/64 |
| Equity capital (₹ Crore) | 6,290.2 |
| Face value (₹) | 5.0 |

### Shareholding pattern

| (in %) | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 |
|---|---|---|---|---|---|
| Promoter | 60.4 | 60.4 | 60.4 | 60.4 | 60.4 |
| FII | 8.1 | 7.7 | 7.7 | 8.1 | 8.1 |
| DII | 17.4 | 17.5 | 17.7 | 17.5 | 17.6 |
| Others | 14.1 | 14.4 | 14.2 | 14.0 | 13.9 |

### Price Chart




### Recent event & key risks

- Production ramp-up in KG basin field delayed and pushed to FY23E.
- **Key Risk:** (i) Sustained higher oil prices and increase in value of subsidiaries, (ii) Slower than expected increase in production

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ICICI Securities – Retail Equity Research

### Key Financial Summary

| (Year-end March) | FY19 | FY20 | FY21E | 5 year CAGR (FY16-21E) | FY22E | FY23E | 2 year CAGR (FY21E-23E) |
|---|---|---|---|---|---|---|---|
| Revenues (₹ crore) | 1,09,654.6 | 96,213.6 | 68,141.1 | (2.8) | 1,01,305.2 | 1,07,567.7 | 25.6 |
| EBITDA (₹ crore) | 59,462.7 | 49,288.2 | 32,812.7 | (2.7) | 52,851.0 | 56,662.6 | 31.4 |
| Net Profit (₹ crore) | 26,715.8 | 13,104.6 | 11,365.9 | (7.0) | 24,013.6 | 26,032.6 | 51.3 |
| EPS (₹) | 21.2 | 10.4 | 9.0 | | 19.1 | 20.7 | |
| P/E (x) | 5.4 | 10.9 | 12.6 | | 6.0 | 5.5 | |
| Price / Book (x) | 0.7 | 0.7 | 0.7 | | 0.6 | 0.6 | |
| EV/EBITDA (x) | 2.8 | 3.3 | 5.2 | | 3.3 | 3.0 | |
| RoCE (%) | 15.6 | 10.2 | 4.4 | | 11.6 | 11.4 | |
| RoE (%) | 13.2 | 6.7 | 5.6 | | 10.9 | 10.9 | |

*Source: Company, ICICI Direct Research*

## Key takeaways of recent quarter

### Q1FY22 Results: Benefits from high oil prices

- Revenues increased 8.6% QoQ to ₹ 23021.6 crore (our estimate: ₹ 2219.3 crore) on account of higher oil sales volume and gas realisations (for JVs). Net oil realisations increased 13% QoQ to US$65.6/bbl
- Oil production was down 2.8% QoQ to 5.4 MMT in line with estimate. Gas production declined 4.9% QoQ to 5.3 MMT in line with estimate
- EBITDA during the quarter increased 20% QoQ to ₹ 12152.8 crore (our estimate: ₹ 11256.8 crore)
- DD&A expenses came in at ₹ 5316.6 crore against estimate of ₹ 6051.8 crore while other income was ₹ 533.7 crore against estimate of ₹ 979.6 crore
- Consequently, reported PAT was at ₹ 4334.8 crore, down 35.6% QoQ as the company had reported exceptional gain of ₹ 2613.2 crore in Q4FY21 (our estimate: ₹ 4184 crore).

Exhibit 1: Variance Analysis

| | Q1FY22 | Q1FY22E | Q1FY21 | YoY (%) | Q4FY21 | QoQ (%) | Comments |
|---|---|---|---|---|---|---|---|
| Total Revenues | 23,021.6 | 22,219.3 | 13,011.3 | 76.9 | 21,188.9 | 8.6 | |
| Raw materials costs | 700.4 | 680.0 | 285.2 | 145.6 | 416.1 | 68.3 | |
| Employees Cost | 730.2 | 518.4 | 498.5 | 46.5 | 630.7 | 15.8 | |
| Other Expenses | 9,438.3 | 9,764.0 | 6,319.9 | 49.3 | 10,018.7 | -5.8 | |
| Total Expenditure | 10,868.8 | 10,962.5 | 7,103.6 | 53.0 | 11,065.4 | -1.8 | |
| EBITDA | 12,152.8 | 11,256.8 | 5,907.7 | 105.7 | 10,123.5 | 20.0 | Higher mainly due to better oil sales volume and gas realisations (for joint ventures) than expected |
| EBITDA margins (%) | 52.8 | 50.7 | 45.4 | 738 bps | 47.8 | 501 bps | |
| Depreciation | 5,316.6 | 6,051.8 | 4,949.2 | 7.4 | 6,372.7 | -16.6 | Lower than estimates |
| EBIT | 6,836.2 | 5,205.0 | 958.5 | 613.2 | 3,750.8 | 82.3 | |
| Interest | 619.7 | 591.0 | 491.8 | 26.0 | 568.8 | 9.0 | |
| Other Income | 533.7 | 979.6 | 436.8 | 22.2 | 3,132.4 | -83.0 | |
| Extra Ordinary Item | 0.0 | 0.0 | 0.0 | NA | 2,613.2 | NA | |
| PBT | 6,750.2 | 5,593.6 | 903.5 | 647.1 | 8,927.6 | -24.4 | |
| Total Tax | 2,415.4 | 1,409.6 | 407.5 | 492.7 | 2,193.6 | 10.1 | |
| PAT | 4,334.8 | 4,184.0 | 496.0 | 774.0 | 6,734.0 | -35.6 | |
| **Key Metrics** | | | | | | | |
| Exchange rate (₹/$) | 73.9 | 73.9 | 75.9 | -2.7 | 72.9 | 1.3 | |
| Gross realisation($/bbl) | 65.6 | 67.1 | 28.7 | 128.4 | 58.1 | 13.0 | |
| Net realisation ($/bbl) | 65.6 | 67.1 | 28.7 | 128.4 | 58.1 | 13.0 | Realisations increased owing to higher crude oil prices |
| Oil Production (mmt) | 5.4 | 5.4 | 5.7 | -4.8 | 5.6 | -2.8 | |
| Gas Production (mmt) | 5.3 | 5.3 | 5.5 | -4.2 | 5.6 | -4.9 | |

*Source: Company, ICICI Direct Research*

Exhibit 2: Change in estimates

| | FY22E | | | FY23E | | | |
|---|---|---|---|---|---|---|---|
| (₹ Crore) | Old | New | % Change | Old | New | % Change | Comments |
| Revenue | NA | 1,01,305.2 | NA | NA | 1,07,567.7 | NA | |
| EBITDA | NA | 52,851.0 | NA | NA | 56,662.6 | NA | |
| EBITDA Margin (%) | NA | 52.2 | NA | NA | 52.7 | NA | |
| PAT | NA | 24,013.6 | NA | NA | 26,032.6 | NA | |
| EPS (₹) | NA | 19.1 | NA | NA | 20.7 | NA | |

*Source: ICICI Direct Research*

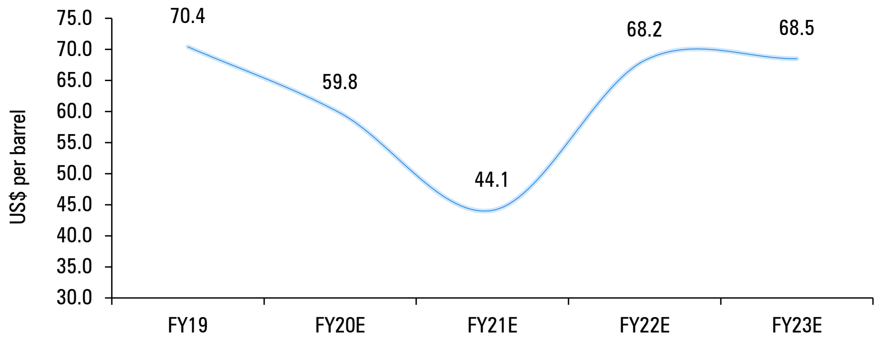
Exhibit 3: Assumptions

| | | | Current | | Earlier | | Comments |
|---|---|---|---|---|---|---|---|
| | FY20E | FY21E | FY22E | FY23E | FY22E | FY23E | |
| Exchange rate (₹/$) | 70.8 | 74.0 | 74.4 | 74.5 | NA | NA | |
| Gross realisation($/bbl) | 59.8 | 44.1 | 68.2 | 68.5 | NA | NA | |
| Net realisation ($/bbl) | 59.8 | 44.1 | 68.2 | 68.5 | NA | NA | |
| Oil Prodn (Dom) (mmt) | 23.4 | 22.5 | 22.7 | 23.1 | NA | NA | |
| Oil Prodn (OVL) (mmt) | 9.8 | 8.5 | 9.8 | 10.2 | NA | NA | |
| Gas Prodn (Dom)(mmt) | 24.9 | 22.8 | 24.2 | 27.1 | NA | NA | |
| Gas Prodn (OVL)(mmt) | 5.2 | 4.5 | 4.7 | 4.9 | NA | NA | |

*Source: ICICI Direct Research*

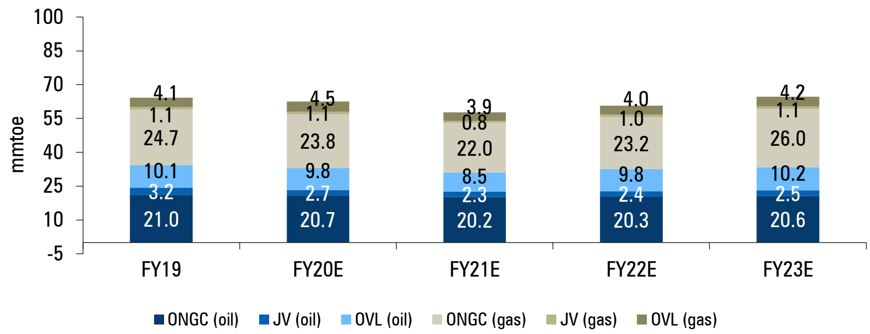
## Story in charts

Exhibit 4: Oil realisation trend



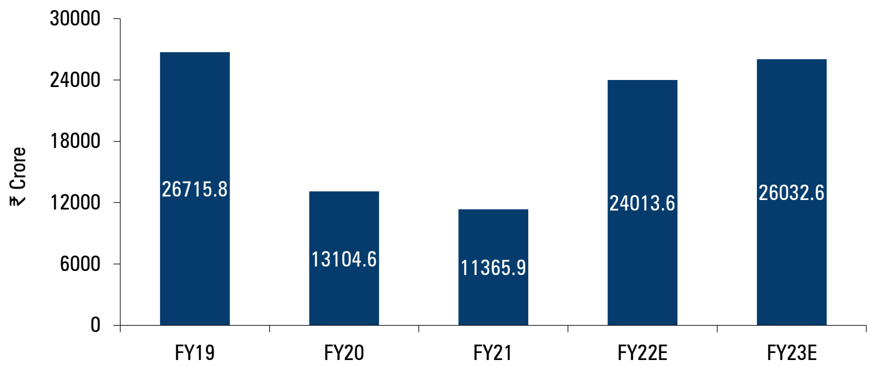

*Source: Company, ICICI Direct Research*

Exhibit 5: Production trajectory




*Source: Company, ICICI Direct Research*

Exhibit 6: Profitability trend (standalone)




*Source: Company, ICICI Direct Research*

## Financial Summary

Exhibit 7: Profit and loss statement ₹ crore

| (Year-end March) | FY20E | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| **Revenue** | **96213.6** | **68141.1** | **101305.2** | **107567.7** |
| Growth (%) | -12.3 | -29.2 | 48.7 | 6.2 |
| (Inc.)/Dec. in stock trade | 245.2 | -426.4 | -29.4 | 0.0 |
| Raw material Costs | 2588.7 | 1980.7 | 2904.8 | 2900.0 |
| Employee Costs | 2520.3 | 2307.3 | 2611.3 | 2715.7 |
| Statutory Levies | 22570.8 | 16423.7 | 26678.0 | 28194.9 |
| Other Expenditure | 19000.4 | 15043.1 | 16289.6 | 17094.5 |
| Op. Expenditure | 46925.4 | 35328.4 | 48454.2 | 50905.1 |
| **EBITDA** | **49288.2** | **32812.7** | **52851.0** | **56662.6** |
| Growth (%) | -17.1 | -33.4 | 61.1 | 7.2 |
| Depreciation | 27524.4 | 22712.9 | 23472.0 | 25200.1 |
| EBIT | 21763.8 | 10099.8 | 29379.0 | 31462.5 |
| Interest | 2940.2 | 1976.0 | 2392.8 | 2724.1 |
| Other Income | 1262.2 | 8398.5 | 6072.6 | 6064.5 |
| PBT | 20085.9 | 16522.3 | 33058.7 | 34802.9 |
| Growth (%) | -49.7 | -17.7 | 100.1 | 5.3 |
| Tax | 6981.3 | 5156.4 | 9045.2 | 8770.3 |
| **Reported PAT** | **13104.6** | **11365.9** | **24013.6** | **26032.6** |
| Growth (%) | -50.9 | -13.3 | 111.3 | 8.4 |
| **EPS** | **10.4** | **9.0** | **19.1** | **20.7** |

*Source: Company, ICICI Direct Research*

Exhibit 8: Cash flow statement ₹ crore

| (Year-end March) | FY20E | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Profit after Tax | 13,104.6 | 11,365.9 | 24,013.6 | 26,032.6 |
| Add: Depreciation | 27,524.4 | 22,712.9 | 23,472.0 | 25,200.1 |
| Add: Others | -1,726.3 | 1,129.3 | 1,500.0 | 1,500.0 |
| Cash Profit | 31,543.3 | 29,909.3 | 41,626.1 | 45,373.2 |
| Increase/(Decrease) in CL | 7,419.0 | 2,569.3 | -5,925.9 | 872.6 |
| (Increase)/Decrease in CA | -1,978.1 | -6,527.8 | -4,333.7 | -4,521.6 |
| **CF from Operating Activ** | **44343.6** | **31249.6** | **38726.0** | **49083.7** |
| Purchase of Fixed Assets | 31,979.7 | 30,138.8 | 34,655.0 | 36,383.1 |
| (Inc)/Dec in Investments | 12,451.5 | -8,900.0 | 1,400.0 | -5,000.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| **CF from Investing Activi** | **-19,528.1** | **-39,038.8** | **-33,255.0** | **-41,383.1** |
| Inc/(Dec) in Loan Funds | -2,592.3 | 8,300.0 | 4,500.0 | 4,500.0 |
| Less: Dividend Paid | 7,359.5 | 5,298.8 | 7,359.5 | 7,359.5 |
| Inc/(Dec) in Sh. Cap. & R | -14,399.6 | 4,150.0 | 0.0 | 0.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| **CF from financing activ** | **-24,351.4** | **7,151.2** | **-2,859.5** | **-2,859.5** |
| Change in cash Eq. | 464.2 | -638.1 | 2,611.5 | 4,841.1 |
| Op. Cash and cash Eq. | 504.1 | 968.2 | 330.2 | 2,941.7 |
| **Cl. Cash and cash Eq.** | **968.2** | **330.2** | **2,941.7** | **7,782.7** |

*Source: Company, ICICI Direct Research*

Exhibit 9: Balance Sheet ₹ crore

| (Year-end March) | FY20E | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| **Source of Funds** | | | | |
| Equity Capital | 6,290.2 | 6,290.1 | 6,290.1 | 6,290.1 |
| Preference Capital | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserves & Surplus | 1,88,047.9 | 1,98,265.0 | 2,14,919.1 | 2,33,592.2 |
| Shareholder's Fund | 1,94,338.1 | 2,04,555.2 | 2,21,209.3 | 2,39,882.4 |
| Loan Funds | 19,001.3 | 27,301.3 | 31,801.3 | 36,301.3 |
| Deferred Tax Liability | 26,344.1 | 27,473.4 | 28,973.4 | 30,473.4 |
| Well Abandonment Fund | 0.0 | 0.0 | 0.0 | 0.0 |
| **Source of Funds** | **239683.5** | **259329.8** | **281983.9** | **306657.0** |
| | | | | |
| **Application of Funds** | | | | |
| Net Block | 19,222.4 | 19,722.4 | 20,222.4 | 20,722.4 |
| Capital WIP | 20,016.6 | 24,811.3 | 22,994.3 | 21,177.3 |
| Producing Properties | 1,08,476.7 | 1,10,679.1 | 1,20,679.1 | 1,30,679.1 |
| Pre-Producing Properties | 16,209.0 | 16,137.8 | 18,637.8 | 21,137.8 |
| Total Fixed Assets | 1,63,924.6 | 1,71,350.5 | 1,82,533.5 | 1,93,716.5 |
| Investments | 72,430.0 | 81,330.0 | 79,930.0 | 84,930.0 |
| Inventories | 8,566.6 | 8,474.5 | 9,436.6 | 10,020.0 |
| Debtor | 4,777.4 | 7,797.3 | 8,693.8 | 9,157.1 |
| Cash | 968.2 | 330.2 | 2,941.7 | 7,782.7 |
| Loan & Advance, Other CA | 46013.9 | 49613.9 | 52088.9 | 55563.9 |
| Total Current assets | 60326.1 | 66215.9 | 73161.0 | 82523.7 |
| Current Liabilities | 27960.5 | 27629.8 | 22203.9 | 23576.5 |
| Provisions | 29036.7 | 31936.7 | 31436.7 | 30936.7 |
| Total CL and Provisions | 56997.3 | 59566.6 | 53640.6 | 54513.2 |
| Net Working Capital | 3328.9 | 6649.3 | 19520.4 | 28010.5 |
| Miscellaneous expense | 0.0 | 0.0 | 0.0 | 0.0 |
| **Application of Funds** | **239683.5** | **259329.8** | **281983.9** | **306657.0** |

*Source: Company, ICICI Direct Research*

Exhibit 10: Key ratios

| (Year-end March) | FY20E | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| **Per share data (₹)** | | | | |
| Book Value | 154.5 | 162.6 | 175.8 | 190.7 |
| Cash per share | 0.8 | 0.3 | 2.3 | 6.2 |
| EPS | 10.4 | 9.0 | 19.1 | 20.7 |
| Cash EPS | 32.3 | 27.1 | 37.7 | 40.7 |
| DPS | 5.0 | 3.6 | 5.0 | 5.0 |
| **Profitability & Operating Ratios** | | | | |
| EBITDA Margin (%) | 51.2 | 48.2 | 52.2 | 52.7 |
| PAT Margin (%) | 13.6 | 16.7 | 23.7 | 24.2 |
| Fixed Asset Turnover (x) | 0.6 | 0.4 | 0.6 | 0.6 |
| Inventory Turnover (Days) | 32.5 | 45.4 | 34.0 | 34.0 |
| Debtor (Days) | 18.1 | 41.8 | 27.0 | 27.0 |
| Current Liabilities (Days) | 106.1 | 148.0 | 80.0 | 80.0 |
| **Return Ratios (%)** | | | | |
| RoE | 6.7 | 5.6 | 10.9 | 10.9 |
| RoCE | 10.2 | 4.4 | 11.6 | 11.4 |
| RoIC | 10.2 | 4.4 | 11.7 | 11.7 |
| **Valuation Ratios (x)** | | | | |
| PE | 10.9 | 12.6 | 6.0 | 5.5 |
| Price to Book Value | 0.7 | 0.7 | 0.6 | 0.6 |
| EV/EBITDA | 3.3 | 5.2 | 3.3 | 3.0 |
| EV/Sales | 1.7 | 2.5 | 1.7 | 1.6 |
| **Leverage & Solvency Ratios** | | | | |
| Debt to equity (x) | 0.1 | 0.1 | 0.1 | 0.2 |
| Interest Coverage (x) | 7.4 | 5.1 | 12.3 | 11.5 |
| Debt to EBITDA (x) | 0.4 | 0.8 | 0.6 | 0.6 |
| Current Ratio | 1.1 | 1.1 | 1.4 | 1.5 |
| **Quick ratio** | **0.9** | **1.0** | **1.2** | **1.3** |

*Source: Company, ICICI Direct Research*

Exhibit 11: ICICI Direct coverage universe (Oil & gas)

| Sector / Company | CMP (₹) | TP (₹) | Rating | M Cap (₹ Cr) | EPS (₹) | | | P/E (x) | | | EV/EBITDA (x) | | | RoCE (%) | | | RoE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| BPCL (BHAPET) | 465 | 520 | Hold | 97,320 | 91.0 | 31.9 | 38.9 | 5.1 | 14.6 | 12.0 | 7.4 | 9.9 | 8.3 | 14.3 | 10.1 | 11.8 | 33.8 | 14.2 | 15.9 |
| GAIL (India) (GAIL) | 139 | 180 | Hold | 61,721 | 11.0 | 16.4 | 17.7 | 12.6 | 8.5 | 7.9 | 10.3 | 6.4 | 6.3 | 8.7 | 14.4 | 13.6 | 10.6 | 14.4 | 14.1 |
| Gujarat Gas (GUJGA) | 722 | 735 | Hold | 49,702 | 18.5 | 24.9 | 26.3 | 39.0 | 29.0 | 27.5 | 24.1 | 18.7 | 17.4 | 33.0 | 36.5 | 32.8 | 29.0 | 29.6 | 25.4 |
| HPCL (HINPET) | 264 | 265 | Hold | 38,344 | 70.6 | 34.3 | 29.0 | 3.7 | 7.7 | 9.1 | 5.3 | 7.6 | 7.4 | 14.9 | 7.4 | 6.1 | 29.5 | 13.0 | 10.6 |
| Indian Oil Corp (INDOIL) | 104 | 120 | Buy | 95,483 | 23.8 | 15.8 | 15.6 | 4.4 | 6.6 | 6.7 | 2.5 | 2.9 | 2.9 | 13.3 | 10.0 | 9.5 | 19.8 | 12.2 | 11.5 |
| Indraprastha Gas (INDGAS | 535 | 585 | Hold | 37,450 | 14.4 | 18.0 | 21.5 | 37.2 | 29.7 | 24.9 | 24.5 | 19.8 | 16.5 | 20.7 | 23.1 | 23.3 | 17.4 | 18.9 | 19.3 |
| Mahanagar Gas (MAHGAS | 1167 | 1340 | Buy | 11,527 | 62.7 | 95.6 | 107.2 | 18.6 | 12.2 | 10.9 | 11.9 | 7.9 | 6.6 | 22.6 | 29.7 | 28.1 | 18.7 | 23.9 | 22.5 |
| ONGC (ONGC) | 114 | 110 | Hold | 1,46,300 | 9.0 | 19.1 | 20.7 | 12.6 | 6.0 | 5.5 | 5.2 | 3.3 | 3.0 | 4.4 | 11.6 | 11.4 | 5.6 | 10.9 | 10.9 |
| Petronet LNG (PETLNG) | 223 | 245 | Hold | 33,450 | 19.7 | 19.1 | 21.2 | 11.3 | 11.7 | 10.5 | 6.8 | 6.7 | 5.9 | 25.3 | 23.4 | 24.1 | 24.4 | 22.3 | 22.8 |

*Source: Bloomberg, ICICI Direct Research*

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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