

June 25, 2021

## Q4FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	155		114	
Sales (Rs. m)	43,01,776	47,38,764	41,77,546	45,97,552
% Chng.	3.0	3.1		
EBITDA (Rs. m)	7,32,563	7,80,511	6,57,631	7,10,291
% Chng.	11.4	9.9		
EPS (Rs.)	24.9	24.6	18.4	18.5
% Chng.	35.1	33.1		

### Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. bn)	4,250	3,606	4,302	4,739
EBITDA (Rs. bn)	612	566	733	781
Margin (%)	14.4	15.7	17.0	16.5
PAT (Rs. bn)	206	244	313	309
EPS (Rs.)	16.4	19.4	24.9	24.6
Gr. (%)	(42.0)	18.3	28.6	(1.3)
DPS (Rs.)	5.1	2.7	5.3	5.1
Yield (%)	4.2	2.2	4.3	4.1
RoE (%)	9.7	10.0	10.9	10.1
RoCE (%)	8.1	7.7	7.6	6.9
EV/Sales (x)	0.6	0.7	0.7	0.6
EV/EBITDA (x)	4.0	4.3	3.9	3.9
PE (x)	7.5	6.3	4.9	5.0
P/BV (x)	0.7	0.6	0.5	0.5

### Key Data

ONGC.BO | ONGC IN

52-W High / Low	Rs.129 / Rs.64
Sensex / Nifty	52,699 / 15,790
Market Cap	Rs.1,535bn/ \$ 20,694m
Shares Outstanding	12,580m
3M Avg. Daily Value	Rs.6433.36m

### Shareholding Pattern (%)

Promoter's	60.41
Foreign	8.08
Domestic Institution	17.48
Public & Others	14.03
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	7.9	31.0	46.8
Relative	3.7	16.7	(2.9)

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## Strong end to a dismal year

### Quick Pointers:

- Improved crude oil realization drive earnings.
- Gas production volumes to improve with onset of deep-water projects.
- Valuations attractive, however divestment concerns remain an overhang.

**We increase our earnings estimates by 35%/33% to factor rise in crude oil prices of USD65/70/bbl for FY22/23E. Global crude oil prices recently increased sharply as OPEC countries cut production, while demand recovers from recent pandemic. However as OPEC + countries increase their supplies and Iran sanctions get lifted, prices will likely come off. ONGC stock underperformed broader index due to divestment concerns of Government of India share and inefficient capital allocation policies. However, we are positive about long term prospects given 1) production improvement in new projects, 2) higher crude oil realization with low cost and 3) attractive valuations. Reiterate 'BUY' with a TP of Rs155 (Rs114 based on 4.5x FY22E EV/E).**

- Operating performance hit by higher cost:** ONGC reported Q4FY21 standalone EBITDA and PAT of Rs101.2bn (+18%YoY; PLe: Rs113.9bn) and Rs41.2bn (+129%YoY; PLe: Rs38.8bn), respectively. Higher cost hit operating profits. However, higher other income of Rs31.2bn (+137%Y/Y) supported PAT. Q4 consolidated EBIDTA/PAT was at Rs178.6bn (+163%YoY) and Rs93.5bn (+282%YoY).
- For FY21, standalone EBIDTA/PAT came in at Rs328.1bn (-33%YoY) and Rs98.7bn (-46%YoY). Consolidated EBIDTA/PAT was at Rs566bn (-8%YoY) and Rs212bn (+3%YoY).
- Realization was higher tracking international prices:** For Q4, operational profitability was supported by higher crude price realization of US\$58.0/bbl (Q3 US\$ 43.2/bbl) as global demand recovered. For FY21, crude oil realization was at USD42.8/bbl (\$58.6/bbl in FY20). Blended gas realization was at USD2.3/mmbtu (Q3 \$2.2 on Net Calorific Value basis). Management remains hopeful of gas price reforms which can unify different pricing formulas.
- Muted volume rate:** ONGC's Q4 crude oil production came to 5.55MMT (-4.6% YoY), while gas volumes were at 5.58bcm (-7.5% YoY). Crude oil sales were at 5.22MTPA (-3.9% YoY) and gas sales were at 4.39bcm (-5.9% YoY). For FY21, oil and gas production volume was at 22.5MTPA (-3.5%YoY) and 22.82BCM (-8.3%YoY) respectively.
- ONGC Videsh's (OVL's) Q4 volumes were at 3.16MTOE against 3.63MTOE last year. For FY21, OVL volume was at 13.04MTOE (-13%YoY) because of production cuts imposed by Russia along with OPEC countries to boost prices. For Q4, subsidiary profit was at Rs10.2bn vs Q3 level of Rs5.3bn due to lower provisioning and write off. For FY21, OVL PAT was at Rs18.9bn (Rs4.5bn in FY19).

**Exhibit 1: Q4FY21 Standalone Result Overview (Rs mn)**

Y/e March	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	FY21	FY20	YoY gr. (%)
<b>Net sales</b>	<b>2,11,889</b>	<b>2,14,562</b>	<b>(1.2)</b>	<b>1,70,238</b>	<b>6,81,411</b>	<b>9,62,136</b>	<b>(29.2)</b>
Inc/dec in stock	(1,364)	4,678	(129.2)	(464)	(4,263)	2,464	(273.1)
Raw material cons	5,525	5,882	(6.1)	4,930	19,808	25,887	(23.5)
Staff cost	6,307	6,115	3.1	5,621	23,073	25,203	(8.5)
Statutory levies	54,107	48,070	12.6	40,973	1,64,237	2,25,708	(27.2)
Other expenditure	46,079	63,938	(27.9)	35,718	1,50,431	1,90,004	(20.8)
Exp	1,10,654	1,28,683	(14.0)	86,778	3,53,285	4,69,266	(24.7)
<b>Operating profit</b>	<b>1,01,235</b>	<b>85,879</b>	<b>17.9</b>	<b>83,460</b>	<b>3,28,126</b>	<b>4,92,870</b>	<b>(33.4)</b>
Interest	(5,688)	(8,695)	(34.6)	(4,777)	(18,556)	(28,237)	(34.3)
Depreciation	(63,727)	(80,370)	(20.7)	(62,655)	(2,27,128)	(2,74,681)	(17.3)
Other income	31,324	13,256	136.3	12,184	70,231	61,610	14.0
<b>Profit before tax</b>	<b>63,144</b>	<b>10,070</b>	<b>527.0</b>	<b>28,212</b>	<b>1,52,673</b>	<b>2,51,562</b>	<b>(39.3)</b>
Current tax	(8,798)	(8,478)	3.8	(14,450)	(42,050)	(70,470)	(40.3)
<b>Profit after current tax</b>	<b>54,346</b>	<b>1,593</b>	<b>3,312.6</b>	<b>13,761</b>	<b>1,10,624</b>	<b>1,81,092</b>	<b>(38.9)</b>
Deferred tax	(13,139)	16,415	(180.0)	20	(9,514)	854	(1,214.3)
<b>Net profit</b>	<b>41,207</b>	<b>18,008</b>	<b>128.8</b>	<b>13,782</b>	<b>1,01,110</b>	<b>1,81,946</b>	<b>(44.4)</b>

Source: Company, PL

**Exhibit 2: ONGC realisation**

Y/e March	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	FY21	FY20	YoY gr. (%)
Gross realisation (US\$/bbl)	58.1	49.0	18.4	43.2	42.8	58.6	(27.0)
Net realisation (US\$/bbl)	58.1	49.0	18.4	43.2	42.8	58.6	(27.0)

Source: Company, PL

**Conference Call Highlights:**

- FY21 capex was at Rs280bn; expect FY22 capex at Rs295bn.
- Management remains hopeful of gas pricing reforms which will bring parity to different pricing mechanism, currently in force. Also management expects gas prices to rise ~50% in next round of revision.
- Management refrained from giving any volume guidance, given pandemic uncertainties.
- KG98/2 gas production is expected at 4bcm and oil production is likely at 2.2MTPA by FY24E.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	<b>42,50,014</b>	<b>36,05,723</b>	<b>43,01,776</b>	<b>47,38,764</b>
YoY gr. (%)	(6.3)	(15.2)	19.3	10.2
Cost of Goods Sold	-	-	-	-
Gross Profit	42,50,014	36,05,723	43,01,776	47,38,764
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	-	-	-	-
Other Expenses	26,60,541	19,13,089	3,20,736	3,55,575
<b>EBITDA</b>	<b>6,11,687</b>	<b>5,66,015</b>	<b>7,32,563</b>	<b>7,80,511</b>
YoY gr. (%)	(27.1)	(7.5)	29.4	6.5
Margin (%)	14.4	15.7	17.0	16.5
Depreciation and Amortization	3,56,583	2,87,386	3,91,949	4,32,906
<b>EBIT</b>	<b>2,55,104</b>	<b>2,78,630</b>	<b>3,40,614</b>	<b>3,47,606</b>
Margin (%)	6.0	7.7	7.9	7.3
Net Interest	69,998	50,790	61,313	70,646
Other Income	85,316	93,230	98,171	94,498
<b>Profit Before Tax</b>	<b>2,70,422</b>	<b>3,21,070</b>	<b>3,77,472</b>	<b>3,71,457</b>
Margin (%)	6.4	8.9	8.8	7.8
Total Tax	75,080	87,662	96,633	95,093
Effective tax rate (%)	27.8	27.3	25.6	25.6
<b>Profit after tax</b>	<b>1,95,342</b>	<b>2,33,408</b>	<b>2,80,839</b>	<b>2,76,364</b>
Minority interest	(10,544)	(10,194)	(32,011)	(32,413)
Share Profit from Associate	-	-	513	513
<b>Adjusted PAT</b>	<b>2,05,887</b>	<b>2,43,601</b>	<b>3,13,363</b>	<b>3,09,291</b>
YoY gr. (%)	(42.0)	18.3	28.6	(1.3)
Margin (%)	4.8	6.8	7.3	6.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,05,887</b>	<b>2,43,601</b>	<b>3,13,363</b>	<b>3,09,291</b>
YoY gr. (%)	(42.0)	18.3	28.6	(1.3)
Margin (%)	4.8	6.8	7.3	6.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,05,887	2,43,601	3,13,363	3,09,291
<b>Equity Shares O/s (m)</b>	<b>12,580</b>	<b>12,580</b>	<b>12,580</b>	<b>12,580</b>
<b>EPS (Rs)</b>	<b>16.4</b>	<b>19.4</b>	<b>24.9</b>	<b>24.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>25,47,248</b>	<b>39,42,808</b>	<b>47,22,808</b>	<b>51,82,808</b>
Tangibles	25,47,248	39,42,808	47,22,808	51,82,808
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>34,43,359</b>	<b>41,70,889</b>	<b>49,73,697</b>	<b>54,58,786</b>
Tangibles	11,46,806	15,20,810	18,00,050	21,04,441
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>22,96,553</b>	<b>26,50,080</b>	<b>31,73,647</b>	<b>33,54,345</b>
Tangibles	22,88,912	26,49,684	31,73,212	33,53,866
Intangibles	7,641	396	436	479
Capital Work In Progress	8,38,325	8,56,494	8,32,562	9,06,819
Goodwill	1,42,367	1,66,731	1,82,861	2,00,603
Non-Current Investments	7,72,908	11,37,999	12,55,145	13,78,933
Net Deferred tax assets	(4,34,725)	(4,24,634)	(4,42,015)	(4,58,705)
Other Non-Current Assets	1,54,952	1,48,264	1,63,090	1,79,399
<b>Current Assets</b>				
Investments	53,449	58,793	64,673	71,140
Inventories	3,30,512	2,63,024	3,37,172	3,69,432
Trade receivables	91,734	83,603	1,11,901	1,22,326
Cash & Bank Balance	57,041	3,52,480	4,50,172	4,90,817
Other Current Assets	1,07,336	1,11,606	1,22,766	1,35,043
<b>Total Assets</b>	<b>50,38,982</b>	<b>59,67,180</b>	<b>68,60,195</b>	<b>73,90,518</b>
<b>Equity</b>				
Equity Share Capital	62,902	62,902	62,902	62,902
Other Equity	20,06,775	27,17,557	29,06,370	30,93,933
<b>Total Networkth</b>	<b>20,69,677</b>	<b>27,80,459</b>	<b>29,69,272</b>	<b>31,56,835</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	7,20,834	7,67,954	9,17,954	9,42,954
Provisions	3,31,006	3,57,306	3,93,037	4,32,341
Other non current liabilities	86,586	2,753	3,028	3,331
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3,15,745	5,48,640	9,48,640	11,48,640
Trade payables	2,29,679	2,44,755	3,20,314	3,51,199
Other current liabilities	6,31,184	5,89,758	6,43,777	7,03,198
<b>Total Equity &amp; Liabilities</b>	<b>50,38,981</b>	<b>59,67,180</b>	<b>68,60,195</b>	<b>73,90,518</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	2,70,422	3,21,070	3,77,472	3,71,457
Add. Depreciation	2,66,349	2,55,385	2,92,832	3,19,341
Add. Interest	69,998	50,790	61,313	70,646
Less Financial Other Income	85,316	93,230	98,171	94,498
Add. Other	(85,316)	(93,230)	(98,171)	(94,498)
Op. profit before WC changes	5,21,453	5,34,014	6,33,446	6,66,947
Net Changes-WC	1,97,774	94,763	(9,662)	25,242
Direct tax	(78,422)	(90,636)	(75,494)	(74,291)
<b>Net cash from Op. activities</b>	<b>6,40,806</b>	<b>5,38,142</b>	<b>5,48,289</b>	<b>6,17,898</b>
Capital expenditures	(5,24,288)	(6,51,445)	(8,08,598)	(5,92,038)
Interest / Dividend Income	85,316	93,230	98,171	94,498
Others	1,65,320	(3,83,866)	(83,682)	(92,050)
<b>Net Cash from Inv. activities</b>	<b>(2,73,653)</b>	<b>(9,42,080)</b>	<b>(7,94,109)</b>	<b>(5,89,591)</b>
Issue of share cap. / premium	(2,30,845)	5,04,686	(78,808)	(78,330)
Debt changes	15,516	2,80,015	5,50,000	2,25,000
Dividend paid	(75,820)	(34,532)	(66,368)	(63,686)
Interest paid	(69,998)	(50,790)	(61,313)	(70,646)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(3,61,147)</b>	<b>6,99,378</b>	<b>3,43,511</b>	<b>12,338</b>
<b>Net change in cash</b>	<b>6,006</b>	<b>2,95,440</b>	<b>97,692</b>	<b>40,645</b>
Free Cash Flow	1,16,518	(1,13,303)	(2,60,309)	25,860

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<b>Net Revenue</b>	<b>1,30,113</b>	<b>1,69,171</b>	<b>1,70,238</b>	<b>2,11,889</b>
YoY gr. (%)	(51.0)	(30.9)	(28.2)	(1.2)
Raw Material Expenses	2,852	4,066	4,466	4,161
Gross Profit	1,27,262	1,65,105	1,65,772	2,07,728
Margin (%)	97.8	97.6	97.4	98.0
<b>EBITDA</b>	<b>59,077</b>	<b>84,353</b>	<b>83,460</b>	<b>1,01,235</b>
YoY gr. (%)	(60.9)	(36.5)	(32.1)	17.9
Margin (%)	45.4	49.9	49.0	47.8
Depreciation / Depletion	49,492	51,253	62,655	63,727
<b>EBIT</b>	<b>9,585</b>	<b>33,100</b>	<b>20,805</b>	<b>37,508</b>
Margin (%)	7.4	19.6	12.2	17.7
Net Interest	4,918	3,172	4,777	5,688
Other Income	4,368	22,355	12,184	31,324
<b>Profit before Tax</b>	<b>9,035</b>	<b>52,283</b>	<b>28,212</b>	<b>63,144</b>
Margin (%)	6.9	30.9	16.6	29.8
Total Tax	4,075	11,122	14,430	21,936
Effective tax rate (%)	45.1	21.3	51.1	34.7
<b>Profit after Tax</b>	<b>4,960</b>	<b>41,161</b>	<b>13,782</b>	<b>41,207</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>4,960</b>	<b>28,779</b>	<b>13,782</b>	<b>67,339</b>
YoY gr. (%)	(91.6)	(54.0)	(67.4)	(318.0)
Margin (%)	3.8	17.0	8.1	31.8
Extra Ord. Income / (Exp)	-	12,382	-	(26,132)
<b>Reported PAT</b>	<b>4,960</b>	<b>41,161</b>	<b>13,782</b>	<b>41,207</b>
YoY gr. (%)	(91.6)	(34.3)	(67.4)	(233.4)
Margin (%)	3.8	24.3	8.1	19.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>4,960</b>	<b>41,161</b>	<b>13,782</b>	<b>41,207</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	16.4	19.4	24.9	24.6
CEPS	44.7	42.2	56.1	59.0
BVPS	164.5	221.0	236.0	250.9
FCF	9.3	(9.0)	(20.7)	2.1
DPS	5.1	2.7	5.3	5.1
<b>Return Ratio(%)</b>				
RoCE	8.1	7.7	7.6	6.9
ROIC	5.2	5.0	5.4	5.1
RoE	9.7	10.0	10.9	10.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.4	0.3	0.5	0.5
Net Working Capital (Days)	17	10	11	11
<b>Valuation(x)</b>				
PER	7.5	6.3	4.9	5.0
P/B	0.7	0.6	0.5	0.5
P/CEPS	44.7	42.2	56.1	59.0
EV/EBITDA	4.0	4.3	3.9	3.9
EV/Sales	0.6	0.7	0.7	0.6
Dividend Yield (%)	4.2	2.2	4.3	4.1

Source: Company Data, PL Research

## Key Operating Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Gross realisation (US\$/bbl)	71	46	66	72
Subsidy (US\$/bbl)	2	-	-	-
Net realisation (US\$/bbl)	69	46	66	72
Oil Production (mn tons)	23	23	25	25
Gas production (bcm)	25	23	31	31
US\$/Rs	71	74	76	78
Subsidy (Rs mn)	16,982	-	-	-

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Apr-21	BUY	114	103
2	15-Feb-21	BUY	125	97
3	08-Jan-21	BUY	114	98
4	17-Nov-20	BUY	114	71
5	07-Oct-20	BUY	96	71
6	02-Sep-20	BUY	96	79
7	07-Jul-20	BUY	96	82
8	01-Jul-20	BUY	96	80

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	1,628	1,666
2	Bharat Petroleum Corporation	BUY	581	472
3	GAIL (India)	BUY	184	164
4	Gujarat Gas	BUY	666	540
5	Hindustan Petroleum Corporation	BUY	404	276
6	Indian Oil Corporation	BUY	135	105
7	Indraprastha Gas	BUY	662	505
8	Mahanagar Gas	BUY	1,296	1,139
9	NOCIL	BUY	251	209
10	Oil & Natural Gas Corporation	BUY	114	103
11	Oil India	UR	-	122
12	Petronet LNG	BUY	351	228
13	Reliance Industries	BUY	2,256	1,995

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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