

Higher oil & gas price to drive profitability

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

Key events:

- Domestic natural gas price was revised from US\$1.8/mmbtu to US\$2.9/mmbtu on a GCV basis from October 1. A sharp increase of 62% augurs well for realisation of upstream companies
- Oil prices have also been on an upward trend for the last five quarters and are currently at nearly three-year high of US\$83/bbl

What should investors do? ONGC's share price has underperformed the benchmark over the past four years due to a decline in domestic oil & gas production. Due to lower production growth on a sustainable basis, despite cheaper valuations, we do not recommend that long term investors add the stock as it is a play on commodity prices.

- We retain our HOLD rating on the stock

Target Price and Valuation: We value ONGC at ₹ 185 i.e. ₹ 161 for core oil & gas business and ₹ 24 for subsidiaries and other investments.

Key triggers for future price performance:

- Sustained higher crude oil prices and gas realisations can result in better profitability. If prices sustain at higher level, there is further upside potential to earnings and our target price
- Ramp-up in oil & gas production from newer 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



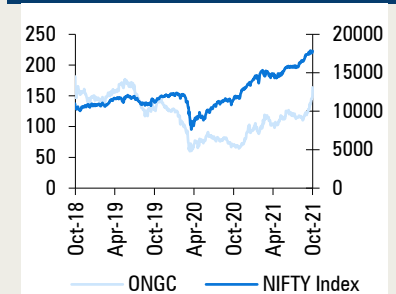
Particulars

| Particular | Amount |
|---------------------------------|------------|
| Market Capitalization (₹ Crore) | 2,11,349.2 |
| Total Debt (FY21) (₹ Crore) | 21,331.1 |
| Cash and Investments (FY21) | 302.5 |
| EV (₹ Crore) | 2,32,377.7 |
| 52 week H/L | 173/64 |
| Equity capital (₹ Crore) | 6,290.1 |
| 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

- APM gas price increased by 62% from October 1st
- **Key Risk:** (i) Sustained higher oil prices and increase in value of subsidiaries, (ii) Slower than expected increase in production

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Key Financial Summary

| (Year-end March) | FY19 | FY20 | FY21E | 5 year CAGR (FY16-21E) | FY22E | FY23E | 2 year CAGR (FY21-23E) |
|----------------------|------------|----------|----------|------------------------|------------|------------|------------------------|
| Revenues (₹ crore) | 1,09,654.6 | 96,213.6 | 68,141.1 | (2.8) | 1,05,470.5 | 1,18,221.5 | 31.7 |
| EBITDA (₹ crore) | 59,462.7 | 49,288.2 | 32,812.7 | (2.7) | 55,629.4 | 66,230.4 | 42.1 |
| Net Profit (₹ crore) | 26,715.8 | 13,104.6 | 11,365.9 | (7.0) | 26,788.3 | 34,118.0 | 73.3 |
| EPS (₹) | 21.2 | 10.4 | 9.0 | | 21.3 | 27.1 | |
| P/E (x) | 7.9 | 16.1 | 18.6 | | 7.9 | 6.2 | |
| Price / Book (x) | 1.0 | 1.1 | 1.0 | | 0.9 | 0.8 | |
| EV/EBITDA (x) | 3.9 | 4.7 | 7.1 | | 4.3 | 3.4 | |
| RoCE (%) | 15.6 | 10.2 | 4.5 | | 13.1 | 14.9 | |
| RoE (%) | 13.2 | 6.7 | 5.6 | | 12.0 | 13.6 | |

Source: Company, ICICI Direct Research

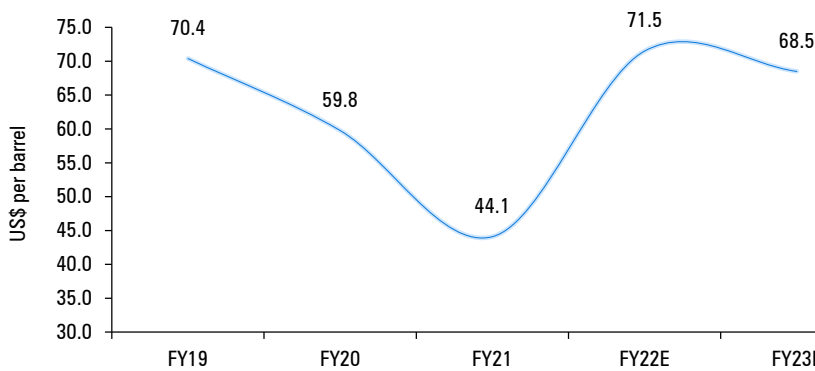
Key events

APM gas prices expected to increase further from current level

- Domestic natural gas prices are revised semi-annually in April and October. The price is determined taking into account the global benchmarks- HH, NBP, Alberta Canada and Russia
- APM prices in FY23E are expected to increase further as benchmark futures are at higher level. We estimate realisations at US\$5/mmbtu in FY23E with further upside potential in realisation
- Crude oil prices were also in an uptrend from August 2021 end onwards. Fall in production due to Ida storm and lower-than-expected oil supply during August also contributed to the increase in prices
- Opec+, in its latest meeting, decided to continue with the earlier agreed plan of 400K bpd increase in output in November
- We revise our estimates and expect oil prices at US\$72.9/bbl in FY22E and US\$70/bbl in FY23E

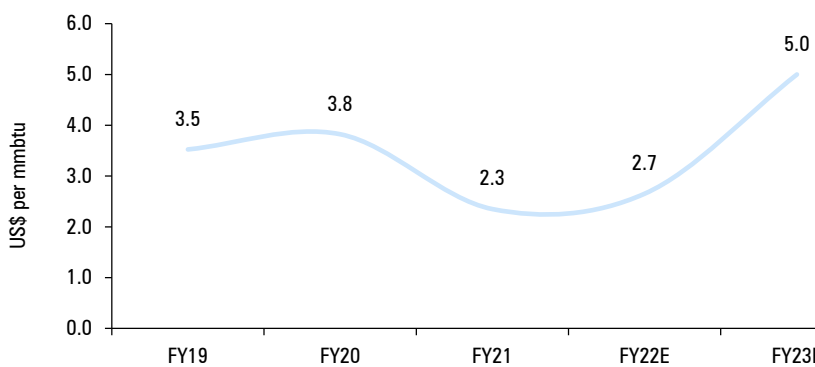
Story in charts

Exhibit 1: Oil realisation trend



Source: Company, ICICI Direct Research

Exhibit 2: APM realisation trend



Source: Company, ICICI Direct Research

Financial Summary

| Exhibit 3: Profit and loss statement | | ₹ crore | | | |
|--------------------------------------|----------------|----------------|-----------------|-----------------|--|
| (Year-end March) | FY20E | FY21E | FY22E | FY23E | |
| Revenue | 96213.6 | 68141.1 | 105470.5 | 118221.5 | |
| Growth (%) | -12.3 | -29.2 | 54.8 | 12.1 | |
| (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 | 28064.9 | 29280.9 | |
| Other Expenditure | 19000.4 | 15043.1 | 16289.6 | 17094.5 | |
| Op. Expenditure | 46925.4 | 35328.4 | 49841.1 | 51991.1 | |
| EBITDA | 49288.2 | 32812.7 | 55629.4 | 66230.4 | |
| Growth (%) | -17.1 | -33.4 | 69.5 | 19.1 | |
| Depreciation | 27524.4 | 22712.9 | 22899.0 | 24436.2 | |
| EBIT | 21763.8 | 10099.8 | 32730.3 | 41794.2 | |
| Interest | 2940.2 | 2094.1 | 2034.6 | 2246.5 | |
| Other Income | 1262.2 | 8517.2 | 6072.6 | 6064.5 | |
| PBT | 20085.9 | 16522.9 | 36768.3 | 45612.2 | |
| Growth (%) | -49.7 | -17.7 | 122.5 | 24.1 | |
| Tax | 6981.3 | 5156.4 | 9980.0 | 11494.3 | |
| Reported PAT | 13104.6 | 11366.5 | 26788.3 | 34118.0 | |
| Growth (%) | -50.9 | -13.3 | 135.7 | 27.4 | |
| EPS | 10.4 | 9.0 | 21.3 | 27.1 | |

Source: Company, ICICI Direct Research

| Exhibit 4: Cash flow statement | | ₹ crore | | | |
|-------------------------------------|------------------|------------------|------------------|------------------|--|
| (Year-end March) | FY20E | FY21E | FY22E | FY23E | |
| Profit after Tax | 13,104.6 | 11,366.5 | 26,788.3 | 34,118.0 | |
| Add: Depreciation | 27,524.4 | 22,712.9 | 22,899.0 | 24,436.2 | |
| Add: Others | -1,726.3 | 1,129.3 | 1,500.0 | 1,500.0 | |
| Cash Profit | 31,543.3 | 33,007.1 | 43,827.9 | 52,694.7 | |
| Increase/(Decrease) in CL | 7,419.0 | 8,093.3 | -10,552.7 | 2,294.7 | |
| (Increase)/Decrease in CA | -1,978.1 | -5,767.8 | -5,029.8 | -5,606.0 | |
| CF from Operating Activities | 44343.6 | 37534.2 | 35604.9 | 56742.9 | |
| Purchase of Fixed Assets | 31,979.7 | 30,437.2 | 34,082.0 | 35,619.2 | |
| (Inc)/Dec in Investments | 12,451.5 | -8,946.4 | 1,446.4 | -5,000.0 | |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | |
| CF from Investing Activities | -19,528.1 | -39,383.6 | -32,635.6 | -40,619.2 | |
| Inc/(Dec) in Loan Funds | -2,592.3 | 2,329.8 | 4,500.0 | 4,500.0 | |
| Less: Dividend Paid | 7,359.5 | 2,201.5 | 7,359.5 | 7,359.5 | |
| Inc/(Dec) in Sh. Cap. & Res. | -14,399.6 | 1,055.5 | 0.0 | 0.0 | |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | |
| CF from financing activities | -24,351.4 | 1,183.8 | -2,859.5 | -2,859.5 | |
| Change in cash Eq. | 464.2 | -665.7 | 109.8 | 13,264.2 | |
| Op. Cash and cash Eq. | 504.1 | 968.2 | 302.5 | 412.3 | |
| Cl. Cash and cash Eq. | 968.2 | 302.5 | 412.3 | 13,676.6 | |

Source: Company, ICICI Direct Research

| Exhibit 5: 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 | 1,98,268.4 | 2,17,697.3 | 2,44,455.8 | |
| Shareholder's Fund | 1,94,338.1 | 2,04,558.6 | 2,23,987.4 | 2,50,745.9 | |
| Loan Funds | 19,001.3 | 21,331.1 | 25,831.1 | 30,331.1 | |
| 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 | 253363.0 | 278791.9 | 311550.4 | |
| Application of Funds | | | | | |
| Net Block | 19,222.4 | 20,020.7 | 20,520.7 | 21,020.7 | |
| 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 | 1,71,648.8 | 1,82,831.8 | 1,94,014.8 | |
| Investments | 72,430.0 | 81,376.4 | 79,930.0 | 84,930.0 | |
| Inventories | 8,566.6 | 8,474.5 | 9,824.6 | 11,012.4 | |
| Debtor | 4,777.4 | 7,797.3 | 9,001.9 | 9,945.1 | |
| Cash | 968.2 | 302.5 | 412.3 | 13,676.6 | |
| Loan & Advance, Other CA | 46013.9 | 48853.9 | 51328.9 | 54803.9 | |
| Total Current assets | 60326.1 | 65428.3 | 70567.8 | 89438.1 | |
| Current Liabilities | 27960.5 | 33169.6 | 23116.8 | 25911.6 | |
| Provisions | 29036.7 | 31921.0 | 31421.0 | 30921.0 | |
| Total CL and Provisions | 56997.3 | 65090.6 | 54537.8 | 56832.6 | |
| Net Working Capital | 3328.9 | 337.7 | 16030.0 | 32605.5 | |
| Miscellaneous expense | 0.0 | 0.0 | 0.0 | 0.0 | |
| Application of Funds | 239683.5 | 253363.0 | 278791.9 | 311550.4 | |

Source: Company, ICICI Direct Research

| Exhibit 6: Key ratios | | FY20E | FY21E | FY22E | FY23E |
|---|--|------------|------------|------------|------------|
| (Year-end March) | | | | | |
| Per share data (₹) | | | | | |
| Book Value | | 154.5 | 162.6 | 178.0 | 199.3 |
| Cash per share | | 0.8 | 0.2 | 0.3 | 10.9 |
| EPS | | 10.4 | 9.0 | 21.3 | 27.1 |
| Cash EPS | | 32.3 | 27.1 | 39.5 | 46.5 |
| DPS | | 5.0 | 3.6 | 5.0 | 5.0 |
| Profitability & Operating Ratios | | | | | |
| EBITDA Margin (%) | | 51.2 | 48.2 | 52.7 | 56.0 |
| PAT Margin (%) | | 13.6 | 16.7 | 25.4 | 28.9 |
| 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 | 177.7 | 80.0 | 80.0 |
| Return Ratios (%) | | | | | |
| RoE | | 6.7 | 5.6 | 12.0 | 13.6 |
| RoCE | | 10.2 | 4.5 | 13.1 | 14.9 |
| RoIC | | 10.2 | 4.5 | 13.1 | 15.6 |
| Valuation Ratios (x) | | | | | |
| PE | | 16.1 | 18.6 | 7.9 | 6.2 |
| Price to Book Value | | 1.1 | 1.0 | 0.9 | 0.8 |
| EV/EBITDA | | 4.7 | 7.1 | 4.3 | 3.4 |
| EV/Sales | | 2.4 | 3.4 | 2.2 | 1.9 |
| Leverage & Solvency Ratios | | | | | |
| Debt to equity (x) | | 0.1 | 0.1 | 0.1 | 0.1 |
| Interest Coverage (x) | | 7.4 | 4.8 | 16.1 | 18.6 |
| Debt to EBITDA (x) | | 0.4 | 0.7 | 0.5 | 0.5 |
| Current Ratio | | 1.1 | 1.0 | 1.3 | 1.6 |
| Quick ratio | | 0.9 | 0.9 | 1.1 | 1.4 |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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