

November 15, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	180		160	
Sales (Rs. m)	64,30,845	65,73,703	63,87,570	23,10,820
% Chng.	0.7	184.5		
EBITDA (Rs. m)	9,05,279	9,03,841	8,74,775	7,60,694
% Chng.	3.5	18.8		
EPS (Rs.)	33.1	34.8	31.3	24.4
% Chng.	6.0	43.1		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	5,318	6,911	6,431	6,574
EBITDA (Rs. bn)	858	1,078	905	904
Margin (%)	16.1	15.6	14.1	13.7
PAT (Rs. bn)	493	595	417	438
EPS (Rs.)	39.2	47.3	33.1	34.8
Gr. (%)	95.0	20.7	(30.0)	5.2
DPS (Rs.)	10.7	11.3	7.9	5.7
Yield (%)	7.7	8.1	5.6	4.1
RoE (%)	20.5	19.2	11.2	17.7
RoCE (%)	14.8	14.3	8.7	10.5
EV/Sales (x)	0.5	0.4	0.4	0.3
EV/EBITDA (x)	3.2	2.4	2.9	2.3
PE (x)	3.6	2.9	4.2	4.0
P/BV (x)	0.7	0.5	0.5	1.6

Key Data

ONGC.BO | ONGC IN

52-W High / Low	Rs.195 / Rs.120
Sensex / Nifty	61,624 / 18,329
Market Cap	Rs.1,752bn / \$ 21,557m
Shares Outstanding	12,580m
3M Avg. Daily Value	Rs.2334.55m

Shareholding Pattern (%)

Promoter's	58.89
Foreign	8.96
Domestic Institution	18.53
Public & Others	13.62
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.1	(9.3)	(10.0)
Relative	2.6	(22.3)	(11.3)

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Healthy realization, production growth augurs well

Quick Pointers:

- Windfall taxes play spoilsport but higher gas realization in H2 to USD8.6/mmbtu (H1: \$6.1) will be positive.
- ONGC's oil and gas production to inch up from FY24 as new field KG98/2 is brought online.

We increase our FY23-25E earnings by 6-43% to factor in higher crude oil realisation to USD81/73/bbl (USD73/70/bbl earlier). ONGC's Q2 standalone EBIDTA was lower than expected at Rs188.1bn (-27.5%Q/Q; PLe Rs201.7bn), while PAT of Rs128.3bn (-15.7%Q/Q PLe Rs107.5bn). EBIDTA was hit by lower than expected oil and gas volumes while PAT got a boost from higher other income and lower tax of 9% as company migrated to lower tax regime. Q2 consolidated EBIDTA/PAT stood at Rs165.7bn (-17%Q/Q) and Rs68.4bn (-26%Q/Q) due to losses at HPCL. Recent government decision to impose windfall taxes will mean ONGC's crude oil realization will be ~USD73/bbl, thereby not benefiting from high commodity prices but gas prices will remain healthy. We maintain 'BUY' rating with PT of Rs180 based on 3.5x EV/E FY24E (3.5x EV/E FY23 earlier; Rs160 earlier) as we roll over.

- Operating performance in line with estimates:** ONGC reported Q2FY23 standalone EBIDTA/PAT of Rs188.1bn (-27%Q/Q; PLe Rs201.7bn), while PAT of Rs128.3bn (-15.7%Q/Q PLe Rs107.5bn) was due to higher than expected other income of Rs35.2bn (PLe Rs8bn). Consolidated EBIDTA stood at Rs165.7bn (-17%Q/Q) and Rs68.4bn (-26%Q/Q) due to losses at HPCL.
- Higher realizations tracking international prices:** For Q2, operational profitability took a hit due to lower crude price realization of US\$95.4/bbl (Q1 US\$108.3/bbl). Adjusted for windfall taxes of Rs65.4bn (USD23.1/bbl), net realization was at USD72.4/bbl (Q1: USD108.5/bbl). Q2 blended gas realization was at USD6.85/mmbtu (flat QoQ). For H2, government has revised up gas prices to USD8.6/mmbtu which will drive profits.
- Volumes remain muted:** ONGC's Q2 crude oil production came to 5.36MMT (-2.4% QoQ), while gas volumes were flat at 5.35bcm. Crude oil sales were at 4.77MTPA (-5% QoQ) and gas sales maintained at 4.17bcm. However, going forward with KG98/2 field coming on stream oil and gas production will increase; FY25 oil and gas production target of 25.7MTPA and 27.5BCM (FY23 oil and gas target of 22.8MTPA and 22.1BCM).
- ONGC Videsh's (OVL's) overall Q2 volumes were at 2.4MTOE (Q1: 2.55).** While crude oil production was at 1.49MTPA (Q1: 1.55), gas volumes were at 0.91BCM (1.00 in Q1). Q2 PBT was at -Rs1.6bn vs Rs12.1bn in Q1 due to lower production volumes and realisation.
- Sakhalin production was stopped due to imposition of force Majeure by the operator, however, the same has resumed.
- MRPL, ONGC's subsidiary Q2 PAT was at -Rs17.9bn (Q1: Rs27bn) as refining thruput was at 3.9MTPA and GRM was at -\$4.5/bbl.

Conference Call Highlights

- KG98/2 field is to start oil production from May23 as FPSO is installed. For FY24E, company expects oil and gas production of 1.93MTPA and 2.78BCM respectively.
- Company expects oil realization to stay at USD75-76/bbl.
- Company has received dividend of USD42mn but still to decide on repatriation given geopolitical tension.
- Production from Sakhalin field in Russia has restarted under new ownership of Rosneft and ONGC expects to produce 1.5MTPA in FY23.
- ONGC's crude oil and gas production is to start recovering as KG98/2 field is brought on line. Company has a target of oil and gas production of 25.7MTPA and 27.5BCM in FY25E respectively.

Exhibit 1: Q2FY23 Standalone Result Overview (Rs mn)

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q4FY22	H1FY23	H1FY22	YoY gr. (%)
Net sales	3,83,208	2,43,536	57.4	4,23,207	8,06,415	4,73,753	70.2
Inc/dec in stock	(8,286)	(699)	NA	(2,901)	(11,186)	(993)	NA
Raw material cons	6,852	7,875	(13.0)	7,482	14,334	15,173	(5.5)
Staff cost	6,128	6,981	(12.2)	7,107	13,236	14,283	(7.3)
Statutory levies	1,46,316	61,170	139.2	1,06,148	2,52,463	1,20,866	108.9
Exp	44,080	35,946	22.6	46,068	90,149	70,634	27.6
Interest	1,95,091	1,11,274	75.3	1,63,905	3,58,996	2,19,962	63.2
Depreciation	1,88,116	1,32,262	42.2	2,59,303	4,47,419	2,53,790	76.3
Other income	(6,669)	(5,788)	15.2	(6,356)	(13,024)	(11,985)	8.7
Profit before tax	(53,147)	(46,416)	NA	(57,094)	(1,10,241)	(99,582)	NA
Current tax	35,294	31,465	12.2	7,577	42,871	36,802	16.5
Profit after current tax	1,63,595	1,11,524	46.7	2,03,430	3,67,025	1,79,026	105.0
Deferred tax	(21,910)	(10,437)	NA	(51,560)	(73,470)	(33,297)	NA
Net profit	1,41,685	1,01,087	40.2	1,51,870	2,93,555	1,45,730	101.4
Extra-ordinary item	(13,425)	82,390	NA	189	(13,236)	81,096	NA
Adj PAT	1,28,260	1,83,477	(30.1)	1,52,059	2,80,318	2,26,826	23.6

Source: Company, PL

Exhibit 2: ONGC crude oil realization

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q4FY22	H1FY23	H1FY22	YoY gr. (%)
Gross realisation (US\$/bbl)	95.0	58.1	63.6	75.7	70.3	37.7	86.3
Net realisation (US\$/bbl)	95.0	58.1	63.6	75.7	70.3	37.7	86.3

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	53,17,618	69,10,703	64,30,845	65,73,703
YoY gr. (%)	47.5	30.0	(6.9)	2.2
Cost of Goods Sold	-	-	-	-
Gross Profit	53,17,618	69,10,703	64,30,845	65,73,703
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	-	-	-	-
Other Expenses	33,18,612	4,14,703	3,82,904	3,80,497
EBITDA	8,57,668	10,78,107	9,05,279	9,03,841
YoY gr. (%)	51.5	25.7	(16.0)	(0.2)
Margin (%)	16.1	15.6	14.1	13.7
Depreciation and Amortization	3,27,763	4,21,668	4,09,053	4,75,005
EBIT	5,29,905	6,56,439	4,96,226	4,28,836
Margin (%)	10.0	9.5	7.7	6.5
Net Interest	56,960	77,470	90,349	83,735
Other Income	74,376	1,07,001	1,16,149	1,09,878
Profit Before Tax	5,47,321	6,85,970	5,22,026	4,54,978
Margin (%)	10.3	9.9	8.1	6.9
Total Tax	47,970	1,40,225	92,201	56,573
Effective tax rate (%)	8.8	20.4	17.7	12.4
Profit after tax	4,99,351	5,45,745	4,29,825	3,98,405
Minority interest	(14,640)	(49,304)	13,032	(39,971)
Share Profit from Associate	(21,049)	-	-	-
Adjusted PAT	4,92,942	5,95,049	4,16,793	4,38,375
YoY gr. (%)	95.0	20.7	(30.0)	5.2
Margin (%)	9.3	8.6	6.5	6.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,92,942	5,95,049	4,16,793	4,38,375
YoY gr. (%)	95.0	20.7	(30.0)	5.2
Margin (%)	9.3	8.6	6.5	6.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,92,942	5,95,049	4,16,793	4,38,375
Equity Shares O/s (m)	12,580	12,580	12,580	12,580
EPS (Rs)	39.2	47.3	33.1	34.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	27,61,408	39,71,134	44,11,134	14,09,467
Tangibles	27,61,408	39,71,134	44,11,134	14,09,467
Intangibles	-	-	-	-
Acc: Dep / Amortization	37,59,850	42,28,894	46,94,670	14,31,414
Tangibles	13,27,885	15,44,882	18,72,612	5,39,503
Intangibles	-	-	-	-
Net fixed assets	24,31,965	26,84,012	28,22,057	8,91,911
Tangibles	24,21,691	26,83,923	28,21,959	8,91,803
Intangibles	10,274	89	98	108
Capital Work In Progress	10,67,192	9,59,321	11,02,030	6,22,244
Goodwill	1,12,056	1,33,876	1,46,233	1,56,644
Non-Current Investments	9,92,557	15,88,247	17,35,693	3,49,326
Net Deferred tax assets	(3,30,027)	(3,72,110)	(3,78,750)	(1,88,031)
Other Non-Current Assets	1,56,850	1,49,387	1,64,326	51,219
Current Assets				
Investments	53,715	59,087	64,995	71,495
Inventories	5,41,631	7,55,429	7,02,524	4,46,082
Trade receivables	1,91,873	3,01,826	2,73,958	77,859
Cash & Bank Balance	68,409	10,04,558	11,71,788	6,65,182
Other Current Assets	1,46,747	1,50,832	1,65,915	15,164
Total Assets	58,54,493	78,91,897	85,10,067	34,47,687
Equity				
Equity Share Capital	62,902	62,902	62,902	62,902
Other Equity	25,32,128	35,27,902	38,17,791	10,12,272
Total Network	25,95,029	35,90,804	38,80,692	10,75,174
Non-Current Liabilities				
Long Term borrowings	8,80,427	11,05,026	10,90,026	8,55,420
Provisions	20,028	4,41,727	4,85,899	87,424
Other non current liabilities	3,91,044	5,385	5,923	5,925
Current Liabilities				
ST Debt / Current of LT Debt	2,47,265	7,76,098	10,26,098	2,20,210
Trade payables	4,01,711	5,95,329	5,53,184	3,45,635
Other current liabilities	6,25,268	6,52,523	7,13,480	4,79,228
Total Equity & Liabilities	58,54,493	78,91,897	85,10,067	34,47,687

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	5,47,321	6,85,970	5,22,026	4,54,978
Add. Depreciation	2,88,717	3,18,046	3,22,021	3,84,034
Add. Interest	56,960	77,470	90,349	83,735
Less Financial Other Income	74,376	1,07,001	1,16,149	1,09,878
Add. Other	(74,376)	(1,07,001)	(1,16,149)	(1,09,878)
Op. profit before WC changes	8,18,622	9,74,485	8,18,247	8,12,870
Net Changes-WC	(68,767)	(94,728)	33,994	(88,844)
Direct tax	(1,33,520)	(1,50,918)	(92,903)	(59,996)
Net cash from Op. activities	6,16,334	7,28,840	7,59,338	6,64,030
Capital expenditures	(4,59,379)	(4,84,041)	(6,15,132)	20,15,487
Interest / Dividend Income	74,376	1,07,001	1,16,149	1,09,878
Others	(63,678)	(5,03,032)	(1,11,574)	10,68,701
Net Cash from Inv. activities	(4,48,681)	(8,80,071)	(6,10,557)	31,94,066
Issue of share cap. / premium	1,28,260	5,53,744	(27,275)	(31,68,512)
Debt changes	(1,07,716)	7,53,432	2,35,000	(10,40,494)
Dividend paid	(1,34,750)	(1,42,326)	(98,927)	(71,960)
Interest paid	(56,960)	(77,470)	(90,349)	(83,735)
Others	-	-	-	-
Net cash from Fin. activities	(1,71,166)	10,87,380	18,449	(43,64,702)
Net change in cash	(3,513)	9,36,149	1,67,230	(5,06,606)
Free Cash Flow	1,56,955	2,44,799	1,44,206	26,79,517

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	2,84,729	3,44,972	4,23,207	3,83,208
YoY gr. (%)	67.3	62.8	83.8	57.4
Raw Material Expenses	8,297	8,818	4,582	(1,434)
Gross Profit	2,76,432	3,36,154	4,18,626	3,84,641
Margin (%)	97.1	97.4	98.9	100.4
EBITDA	1,59,691	1,85,902	2,59,303	1,88,116
YoY gr. (%)	91.3	83.6	113.4	42.2
Margin (%)	56.1	53.9	61.3	49.1
Depreciation / Depletion	54,559	76,399	57,094	53,147
EBIT	1,05,131	1,09,503	2,02,209	1,34,969
Margin (%)	36.9	31.7	47.8	35.2
Net Interest	5,816	5,798	6,356	6,669
Other Income	14,916	13,437	7,577	35,294
Profit before Tax	1,14,232	1,17,143	2,03,430	1,63,595
Margin (%)	40.1	34.0	48.1	42.7
Total Tax	26,594	28,548	51,371	35,335
Effective tax rate (%)	23.3	24.4	25.3	21.6
Profit after Tax	87,637	88,595	1,52,059	1,28,260
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	87,637	88,595	1,52,059	1,28,260
YoY gr. (%)	535.9	(5.2)	250.8	(30.1)
Margin (%)	30.8	25.7	35.9	33.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	87,637	88,595	1,52,059	1,28,260
YoY gr. (%)	535.9	31.6	250.8	(30.1)
Margin (%)	30.8	25.7	35.9	33.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	87,637	88,595	1,52,059	1,28,260
Avg. Shares O/s (m)	6,290	6,290	6,290	6,290
EPS (Rs)	13.9	14.1	24.2	20.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	39.2	47.3	33.1	34.8
CEPS	65.2	80.8	65.6	72.6
BVPS	206.3	285.4	308.5	85.5
FCF	12.5	19.5	11.5	213.0
DPS	10.7	11.3	7.9	5.7
Return Ratio(%)				
RoCE	14.8	14.3	8.7	10.5
ROIC	9.2	9.6	6.8	15.8
RoE	20.5	19.2	11.2	17.7
Balance Sheet				
Net Debt : Equity (x)	0.4	0.2	0.2	0.3
Net Working Capital (Days)	23	24	24	10
Valuation(x)				
PER	3.6	2.9	4.2	4.0
P/B	0.7	0.5	0.5	1.6
P/CEPS	65.2	80.8	65.6	72.6
EV/EBITDA	3.2	2.4	2.9	2.3
EV/Sales	0.5	0.4	0.4	0.3
Dividend Yield (%)	7.7	8.1	5.6	4.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross realisation (US\$/bbl)	77	80	72	69
Subsidy (US\$/bbl)				
Net realisation (US\$/bbl)	77	80	72	69
Oil Production (mn tons)	22	24	24	24
Gas production (bcm)	22	24	25	25
US\$/Rs	75	80	82	85
Subsidy (Rs mn)				

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	01-Oct-22	BUY	160	127
2	13-Aug-22	BUY	160	139
3	05-Jul-22	BUY	160	127
4	31-May-22	BUY	180	144
5	23-May-22	BUY	240	162
6	04-Apr-22	BUY	240	168
7	14-Feb-22	BUY	210	168
8	06-Jan-22	BUY	210	150

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	Reduce	260	310
2	Bharti Airtel	BUY	1,058	836
3	GAIL (India)	BUY	120	89
4	Gujarat Gas	Hold	530	495
5	Hindustan Petroleum Corporation	Hold	195	211
6	Indian Oil Corporation	Reduce	50	68
7	Indraprastha Gas	BUY	596	397
8	Mahanagar Gas	BUY	1,103	876
9	Oil & Natural Gas Corporation	BUY	160	127
10	Oil India	BUY	300	196
11	Petronet LNG	BUY	325	209
12	Reliance Industries	BUY	2,892	2,480

PL's Recommendation Nomenclature (Absolute Performance)

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



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