

13 August 2023

India | Equity Research | Q1FY24 result review

Oil and Natural Gas Corporation

Oil & Gas

A muted start to the year, but next 18 months should see strength

ONGC has reported 28% YoY dip in standalone EBITDA and 34% dip in recurring PAT for Q1FY24 (EBITDA / PAT was INR 182.5bn / INR 100.1bn vs I-Sec estimate of INR 154.3bn / INR 66.8bn, respectively), with consolidated recurring EBITDA / PAT up 59% / 12% YoY led by stronger performance from subsidiaries HPCL and MRPL. We note even at a realisation of USD 75.5/bbl for oil and ~INR 21/scm for gas, our standalone and consolidated EPS estimates of INR 38.4/sh and INR 39.3/sh for FY24E are well above the average EPS for FY22/FY23, respectively. With stronger production from KG field likely available by FY25, our FY25E EPS estimate of INR 45.6 signifies stronger earnings prospects, even with capped realisations on oil and gas. We believe valuation at 3.9x FY24E consolidated EPS and 2.5x EV/EBITDA remains attractive. Reiterate **BUY**.

Brent remains strong

Brent crude prices have increased to >USD 85/bbl levels (in Aug'23), driven by a steep drawdown in US fuel stockpiles and Saudi & Russian output cuts, which have offset concerns about muted demand prospects from China. Q1FY24 average realisation of USD 74.2/bbl (net windfall tax of USD 2.3/bbl) was down 32% YoY. At our FY24E and FY25E estimates of Brent crude at USD 85/bbl, we see ONGC's net realisation remaining at ~USD 76/bbl – well above the average realisation over FY15-FY23.

Gas prices to remain above long-term average

Q1FY24 gas price realisation of INR 20.5/scm was up 18% YoY, but down 21% QoQ. The government has set the ceiling for domestic price for APM gas of ONGC to USD 6.5/mmbtu for FY24/25 from USD 8.6/mmbtu in H2FY23. However, given KG basin gas would qualify for premium pricing and that international prices may remain well above the historical levels, we see net gas realisation at INR 20.9/scm and INR 22.3/scm for FY24E and FY25E vs INR 22.2/scm for FY23. We note these prices compare favourably with FY15-FY23 average blended price of INR 10.9/scm.

Financial Summary

Y/E March (INR bn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	5,318	6,848	6,697	7,089
EBITDA	799	784	1,049	1,187
EBITDA %	15.0	11.4	15.7	16.7
Net Profit	474	437	494	574
EPS (Rs)	37.7	34.7	39.3	45.6
EPS % Chg YoY	202.9	(7.9)	13.2	16.1
P/E (x)	4.7	5.1	4.5	3.9
EV/EBITDA (x)	4.0	4.1	3.0	2.4
RoCE (Pre-tax) (%)	14.3	13.1	15.5	15.7
RoE (%)	19.7	16.2	16.7	17.5

Probal Sen

probal.sen@icicisecurities.com
+91 22 6807 7274

Hardik Solanki

solanki.hardik@icicisecurities.com

Market Data

Market Cap (INR)	2,229bn
Market Cap (USD)	26,936mn
Bloomberg Code	ONGC IN
Reuters Code	ONGC.BO
52-week Range (INR)	180 /122
Free Float (%)	31.0
ADTV-3M (mn) (USD)	22.2

Price Performance (%)	3m	6m	12m
Absolute	6.1	23.9	47.1
Relative to Sensex	6.5	8.7	11.6

ESG Disclosure	2021	2022	Change
ESG score	41.6	44.2	2.7
Environment	34.9	34.9	-
Social	26.1	34.0	8.0
Governance	63.6	63.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(0.7)	(0.4)
EBITDA	(1.9)	(0.2)
EPS	(5.1)	(1.6)

Previous Reports

28-05-2023: [Q4FY23 results review](#)

16-02-2023: [Q3FY23 results review](#)

Production to see meaningful increase

Q1FY24 oil production stood at 5.3mt, down 3% YoY but up 1% QoQ, whereas gas production stood at 5.2bcm, down 3/1% YoY/QoQ, respectively. ONGC's standalone production of oil & gas (including JV share) has steadily declined over the past 5 years. With the start of production from KG basin and new assets, we believe this anomaly may get redressed over the next few years. We are, therefore, optimistic on production prospects, and we factor in a CAGR of ~4.6% in oil and gas output (standalone) over FY23-FY25E. We have cut our gas production estimates by 2/0.5% for FY24/FY25E vs earlier to factor in some delay in starting of KG basin production.

Stock price up ~27% in the past one year; BUY

We cut our FY24E and F25E EPS by 5.1% and 1.6%, respectively, to factor in lower gas production and marginally lower realisation. However, stronger long-term price assumptions and stronger cashflow drive a small 1% uptick in the target price to INR 220/sh, 24% upside from CMP. Maintain BUY.

Key risks: i) Sharp reversal in oil & gas price trends, ii) further delays in starting of production from KG basin, and iii) regulatory setbacks.

Exhibit 1: Standalone financial snapshot

(INR mn)	Q1FY24	Q1FY23	% ch YoY	Q4FY23	% ch QoQ
Net sales	3,31,013	4,23,207	(21.8)	3,47,316	(4.7)
EBITDA	1,82,466	2,51,704	(27.5)	1,74,633	4.5
OPM (%)	55.1	59.5		50.3	
Other inc.	16,119	7,577	112.7	19,281	(16.4)
Interest	10,077	6,356	58.6	7,077	42.4
Depreciation	54,902	49,495	10.9	75,558	(27.3)
PBT	1,33,606	2,03,430	(34.3)	-9,792	
Reported PAT	1,00,150	1,52,059	(34.1)	-2,477	
Recurring PAT	1,00,150	1,52,059	(34.1)	88,121	13.7
Recurring EPS (INR/sh)	8.0	12.1	(34.1)	7.0	13.7

Source: Company data, I-Sec research

Exhibit 2: Operational data

Volumes	Q1FY24	Q1FY23	% ch YoY	Q4FY23	% ch QoQ
Oil sales (mt)	4.72	5.03	-6.0	4.68	1.0
Gas sales (bcm)	4.08	4.15	-1.6	4.13	-1.1
Oil production (mt)	5.31	5.49	-3.3	5.24	1.5
Gas production (bcm)	5.22	5.38	-3.0	5.26	-0.8
Total production (mtoe)	10.53	10.88	-3.2	10.50	0.3
Total Value added Product (TMT)	589.00	662.00	-11.0	613.00	-3.9

Source: Company data, I-Sec research

Exhibit 3: Pricing data

Realisation highlights	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Oil Realisation USD/bbl	58.1	65.6	69.4	75.7	95.0	108.5	72.7	77.0	71.8	74.2
Brent USD/bbl	60.5	68.0	73.0	79.4	96.0	110.0	100.7	88.3	81.3	78.0
Gas Realisation USD/mmbtu	2.1	2.6	2.1	3.1	3.2	6.3	6.3	8.8	8.9	7.1
LPG realisation (USD/mt)	557.5	581.6	653.3	811.4	811.1	948.6	772.7	658.9	734.2	662.3
Naphtha realisation (USD/bbl)	63.2	68.2	77.3	85.6	99.9	93.2	75.9	72.1	75.0	65.9
C2-C3 realisation (USD/mt)	381.0	354.9	407.7	503.7	492.2	597.1	567.2	649.9	704.6	586.4

Source: Company data, I-Sec research

Exhibit 4: Consolidated financial snapshot

INR mn	Q1FY24	Q1FY23	% Chg YoY	Q4FY23	% Chg QoQ
Net sales	16,38,236	18,28,938	-10.4	16,40,667	-0.1
EBITDA	3,07,296	1,93,064	59.2	2,66,820	15.2
OPM (%)	19%	11%		16%	
Other inc.	25,435	12,552	102.6	26,621	-4.5
Interest	23,639	16,399	44.2	20,681	14.3
Depreciation	76,952	70,625	9.0	95,325	-19.3
PBT	2,32,141	1,18,592	95.7	1,77,435	30.8
Share of profit of associates/JV	5,258	10,351	-49.2	(15,231)	
Minority Interest	32,491	(33,559)		19,860	
Exceptional items	-	(6,737)		(1,03,167)	
Reported PAT	1,41,339	1,19,366	18.4	37,155	280.4
Recurring PAT	1,41,339	1,26,103	12.1	1,14,354	23.6
Recurring EPS (INR/sh)	11.2	10.0	12.1	9.1	23.6

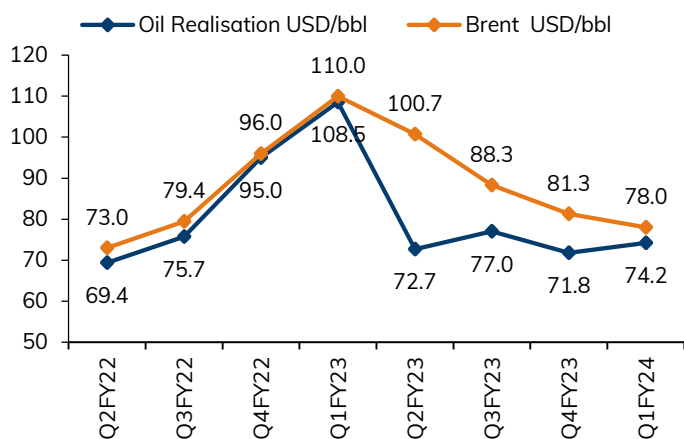
Source: Company data, I-Sec research

Exhibit 5: OVL volumes snapshot

OVL Highlights	Q1FY24	Q1FY23	% Chg YoY	Q4FY23	% Chg QoQ
OVL Prod Volumes					
Oil MMT	1.8	1.5	16.9	1.7	6.6
Gas Bcm	0.8	1.0	(17.0)	1.0	-14.2
Total	2.6	2.5	3.6	2.7	-1.0
OVL Sales Volumes					
Oil MMT	1.2	1.4	(12.6)	1.3	-1.4
Gas Bcm	0.6	0.8	(28.5)	0.5	13.3
Total	1.8	2.2	(18.4)	1.8	2.9

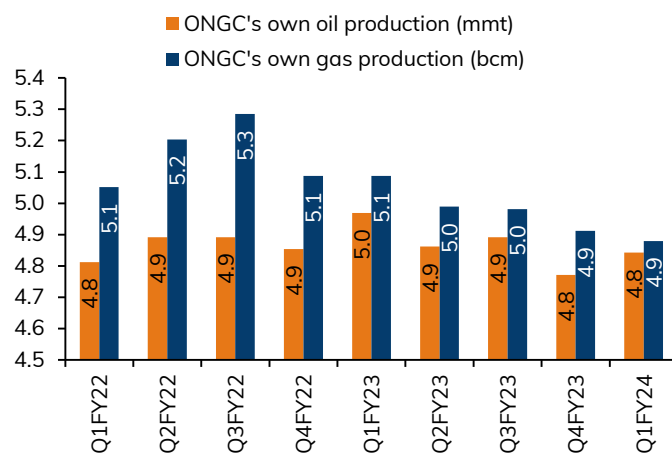
Source: Company data, I-Sec research

Exhibit 6: ONGC net realisation was impacted due to windfall tax in last 4 quarters



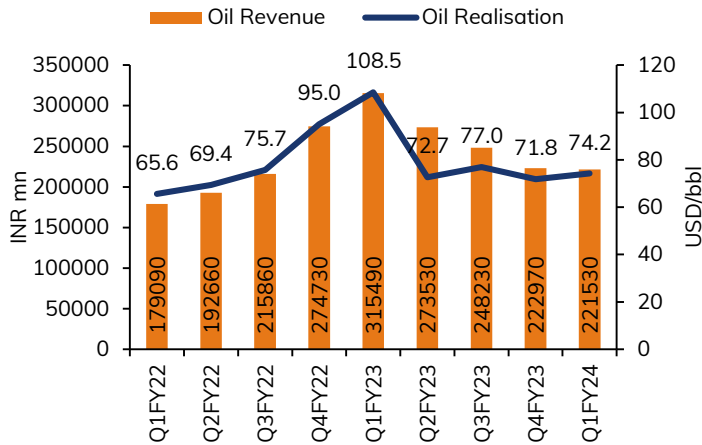
Source: Company data, I-Sec research

Exhibit 7: ONGC standalone (excl. JV) production remained muted in Q1FY24



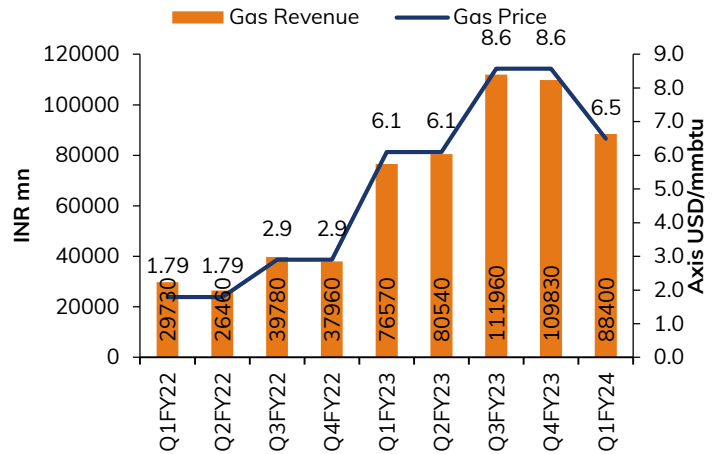
Source: Company data, I-Sec research

Exhibit 8: Oil revenue impacted by windfall tax in last 4 quarters



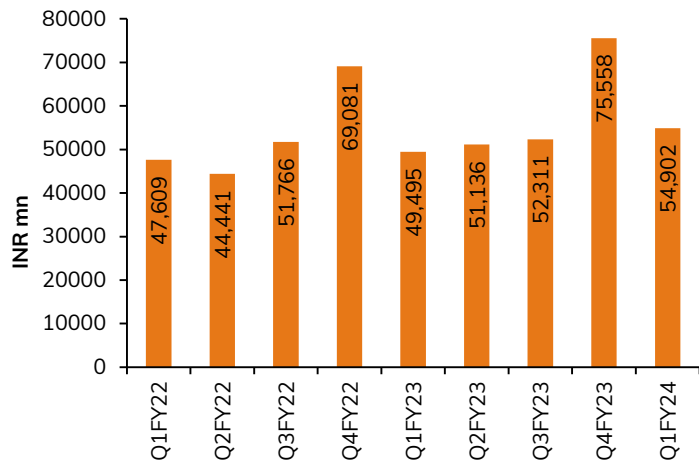
Source: Company data, I-Sec research

Exhibit 9: Gas revenue was impacted in Q1 due to new gas pricing policy in Q1FY24



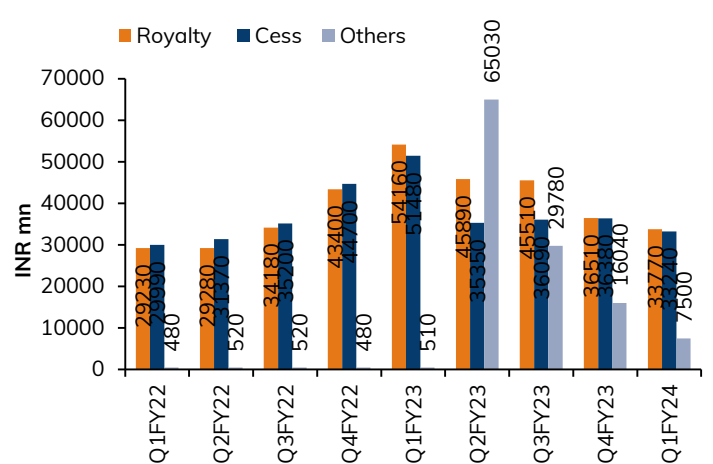
Source: Company data, I-Sec research

Exhibit 10: Depreciation increased YoY, however, declined sharply QoQ



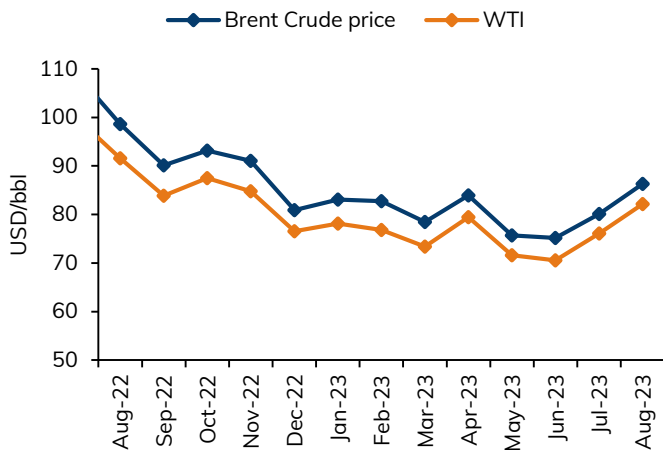
Source: Company data, I-Sec research

Exhibit 11: Other opex/costs include windfall tax from Q2FY23



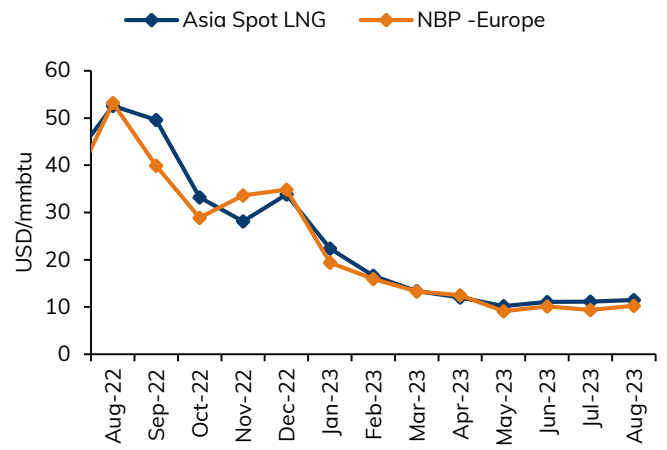
Source: Company data, I-Sec research

Exhibit 12: Crude prices are moderating, however, increased in the last two months



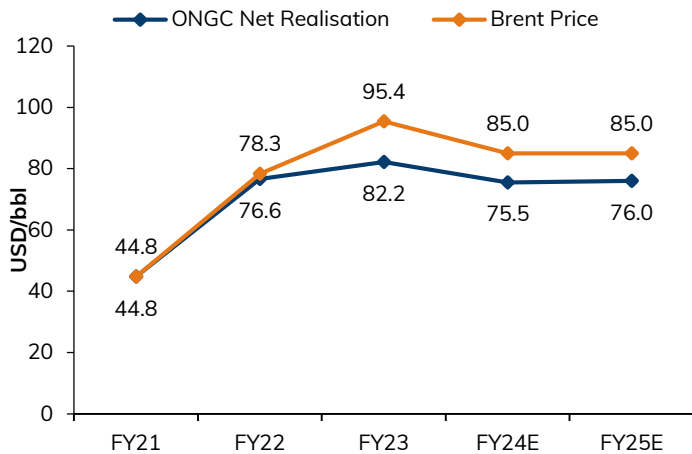
Source: Bloomberg, I-Sec research

Exhibit 13: Global LNG prices are moderating



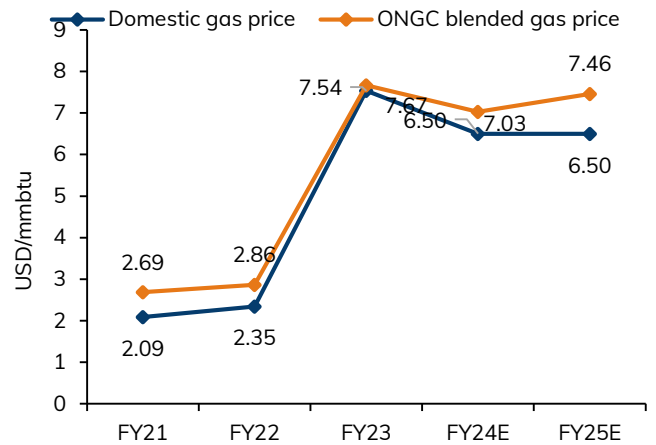
Source: Bloomberg, I-Sec research

Exhibit 14: Brent crude estimates and ONGC net price for FY21-FY25E



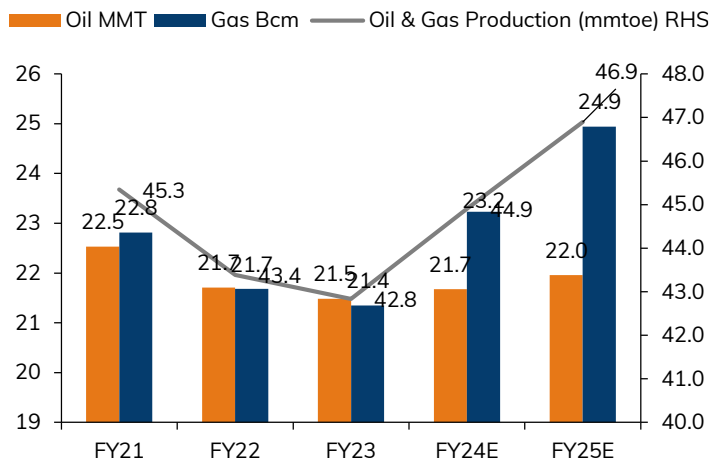
Source: Company data, I-Sec research

Exhibit 15: ONGC blended gas realisations over FY21-FY25E



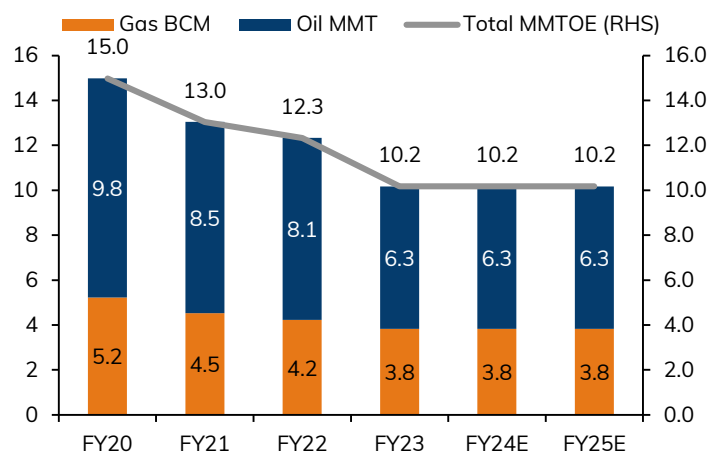
Source: Company data, I-Sec research

Exhibit 16: ONGC standalone production CAGR likely at 4.6% over FY23-FY25E



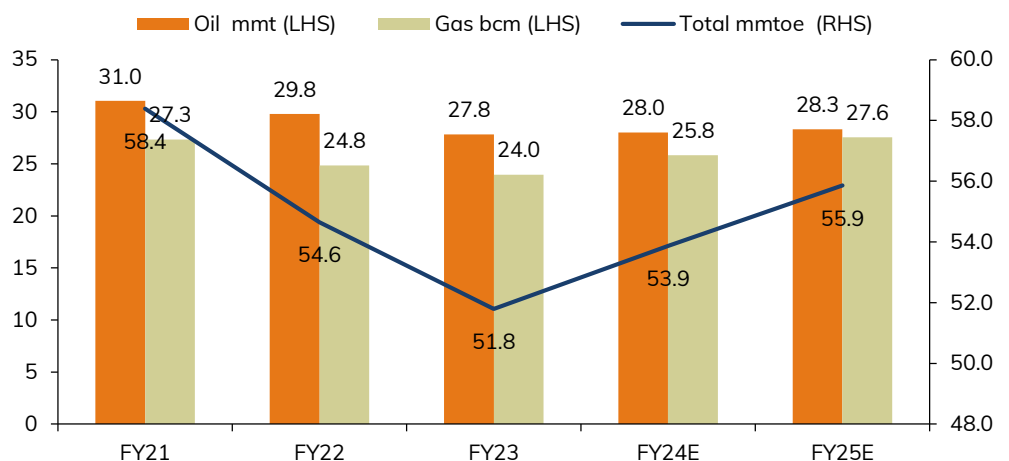
Source: Company data, I-Sec research

Exhibit 17: OVL production likely to remain muted over FY23-FY25E



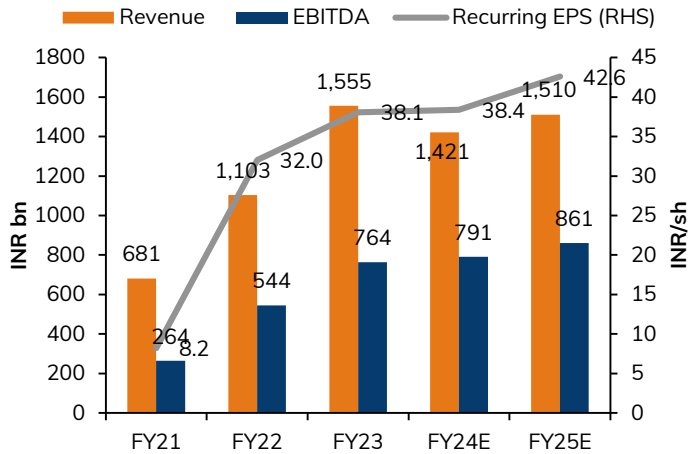
Source: Company data, I-Sec research

Exhibit 18: ONGC group oil & gas production CAGR likely at 3.8% over FY23-FY25E



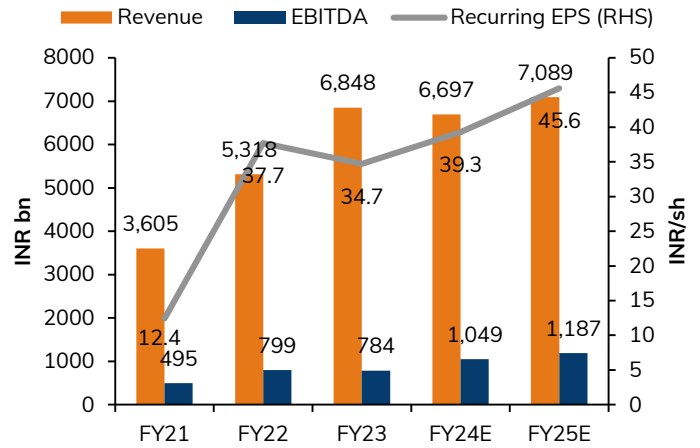
Source: Company data, I-Sec research

Exhibit 19: ONGC standalone earnings over FY21-FY25E



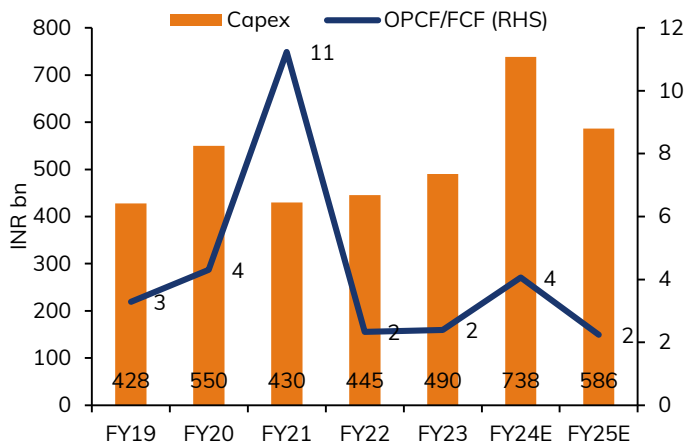
Source: Company data, I-Sec research

Exhibit 20: ONGC group earnings to grow over FY23-FY25E



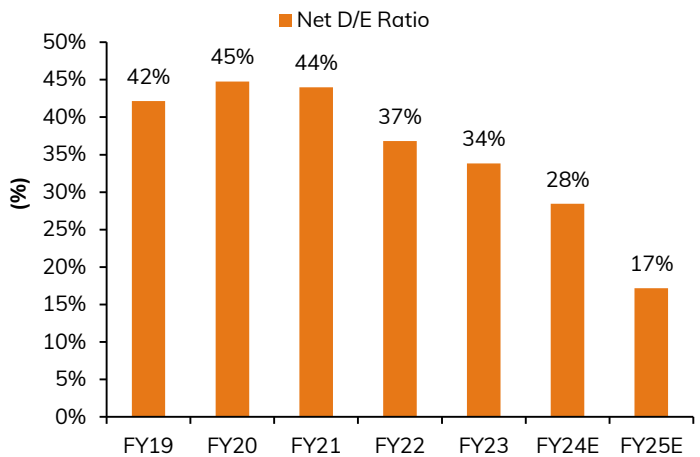
Source: Company data, I-Sec research

Exhibit 21: Higher capex supported by strong OPCF/FCF



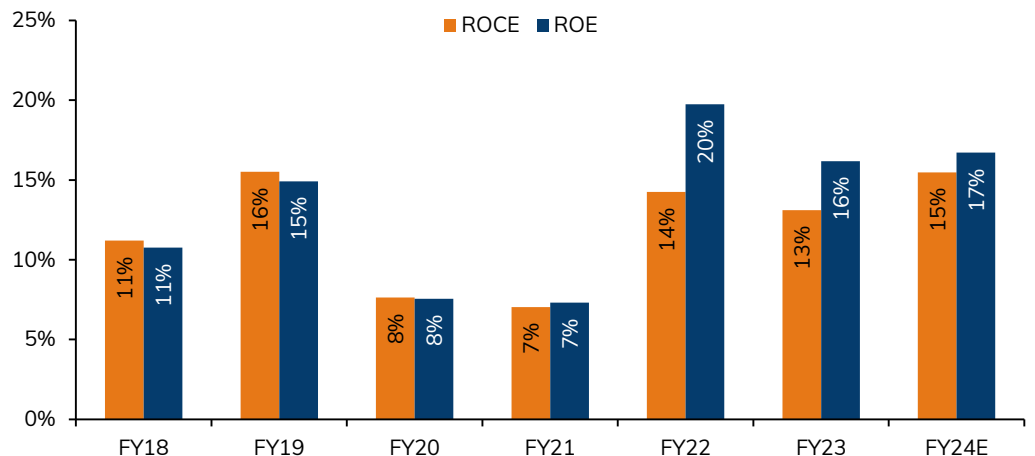
Source: Company data, I-Sec research

Exhibit 22: Leverage continues to be comfortable



Source: Company data, I-Sec research

Exhibit 23: Return ratios likely remain muted



Source: Company data, I-Sec research

Valuations unchallenging – our fair value implies 24% upside

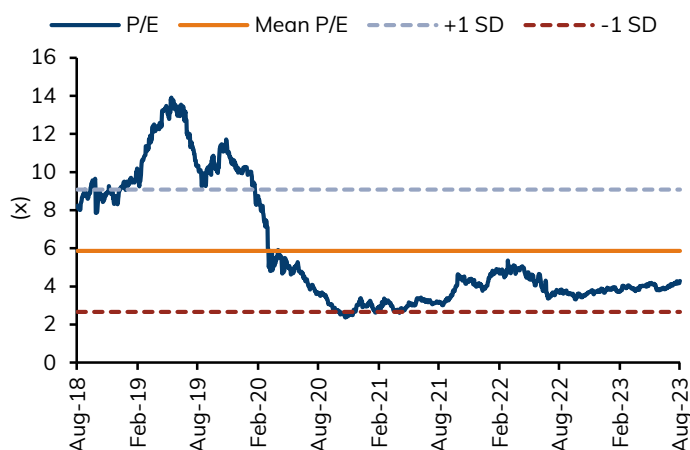
We arrive at DCF-based EV of INR 256/sh for ONGC standalone business and OVL factoring in a) net realisation of USD 76/bbl for crude and blended gas realisation of ~INR 21.6/scm, b) ~4.6% CAGR (standalone including JV: 1.1% CAGR for oil and 8.1% CAGR for gas) in production over FY23-FY25E and a steady decline thereafter. We value other listed investments/subsidiaries at ~20% discount to CMP and netting off for net debt, **we get a fair value of INR 220/sh for ONGC.**

Exhibit 24: Valuation summary

	Reserves	Fair value		
	mmboe	USD/boe	USDm	INR/share
DCF value of 2P reserves	11,910	3.2	37,567	248
16% stake in Mozambique Area 1 gas discoveries at cost	1,333	0.5	667	4
Value of Russian assets	193	0.8	145	1
Valuation of E&P assets	13,436	2.9	38,379	253
Net debt			-10710	(71)
Market value of investments			5,627	37
Target price (INR/sh)			33,295	220
Upside				24%

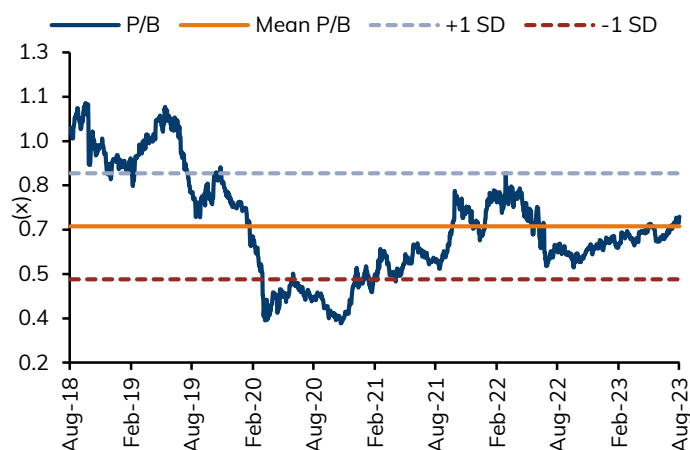
Source: Company data, I-Sec research

Exhibit 25: ONGC's P/E trading well below 5-year bands



Source: Company data, I-Sec research

Exhibit 26: ONGC's P/B trading at the mid-end of 5-year bands



Source: Company data, I-Sec research

Exhibit 27: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	58.9	58.9	58.9
Institutional investors	27.7	27.9	27.9
MFs and others	8.5	8.7	8.7
FIs/Banks	0.0	0.0	0.0
Insurance	10.4	10.8	10.7
FII	8.8	8.4	8.5
Others	13.4	13.2	13.2

Source: Bloomberg

Exhibit 28: Price chart



Source: Bloomberg

Financial Summary

Exhibit 29: Profit & Loss

(INR bn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	5,318	6,848	6,697	7,089
EBITDA	799	784	1,049	1,187
EBITDA Margin (%)	15.0	11.4	15.7	16.7
Depreciation & Amortization	269	246	336	373
EBIT	530	538	713	814
Interest expenditure	57	79	78	88
Other Non-operating Income	74	81	108	131
PBT	547	540	744	857
Profit / (Loss) from Associates	15	0	2	4
Less: Taxes	48	103	197	229
PAT	478	327	546	629
Less: Minority Interest	38	(27)	54	59
Net Income (Reported)	455	354	494	574
Extraordinaries (Net)	(21)	(110)	-	-
Recurring Net Income	474	437	494	574

Source Company data, I-Sec research

Exhibit 30: Balance sheet

(INR bn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	1,007	1,090	1,337	1,719
of which cash & bank	68	291	611	1,003
Total Current Liabilities & Provisions	1,077	1,014	995	1,010
Net Current Assets	(70)	75	343	708
Other Non Current Assets	537	595	594	596
Net Fixed Assets	2,432	2,388	2,691	2,852
Other Fixed Assets	112	120	123	125
Capital Work in Progress	1,067	1,139	1,171	1,156
Non Investment	613	737	752	767
Current Investment	54	52	52	52
Deferred Tax assests	33	24	24	24
Total Assets	4,778	5,131	5,750	6,280
Liabilities				
Borrowings	1,078	1,292	1,546	1,649
Deferred Tax Liability	383	321	321	321
Lease Liability	92	84	86	87
Other Liabilities	392	421	429	437
Equity Share Capital	63	63	63	63
Reserves & Surplus	2,532	2,744	3,044	3,403
Total Net Worth	2,595	2,806	3,107	3,466
Minority Interest	238	206	260	319
Total Liabilities	4,778	5,131	5,750	6,280

Source Company data, I-Sec research

Exhibit 31: Quarterly trend

(INR bn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	383	386	363	338
% growth (YOY)	-9%	1%	-6%	-7%
EBITDA	186	192	175	182
Margin %	49%	50%	48%	54%
Other Income	35	14	19	16
Extraordinaries	0	0	-121	0
Adjusted Net Profit	128	110	88	100

Source Company data, I-Sec research

Exhibit 32: Cashflow statement

(INR bn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Cash Flow from operation before working Capital	878	912	1,114	1,252
Working Capital Changes	37	83	63	35
Tax	(135)	(153)	(197)	(229)
Operating Cashflow	780	842	980	1,058
Capital Commitments	(442)	(487)	(738)	(586)
Free Cashflow	338	355	241	472
Others CFI	37	(245)	96	120
Cashflow from Investing Activities	(405)	(732)	(643)	(466)
Inc (Dec) in Borrowings	(130)	174	255	103
Interest Cost	(39)	(55)	(78)	(88)
Others	(191)	(248)	(194)	(215)
Cash flow from Financing Activities	(360)	(129)	(17)	(200)
Chg. in Cash & Bank balance	15	(19)	320	392
Closing cash & balance	68	291	611	1,003

Source Company data, I-Sec research

Exhibit 33: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Recurring EPS	37.7	34.7	39.3	45.6
Diluted EPS	37.7	34.7	39.3	45.6
Recurring Cash EPS	59.1	54.2	66.0	75.3
Dividend per share (DPS)	10.5	11.3	15.4	17.1
Book Value per share (BV)	206.3	223.1	247.0	275.5
Dividend Payout (%)	27.8	32.4	39.2	37.5
Growth (%)				
Net Sales	47.5	28.8	(2.2)	5.9
EBITDA	61.4	(1.8)	33.8	13.1
EPS	202.9	(7.9)	13.2	16.1
Valuation Ratios (x)				
P/E	4.7	5.1	4.5	3.9
P/CEPS	3.0	3.3	2.7	2.4
P/BV	0.9	0.8	0.7	0.6
EV / EBITDA	4.0	4.1	3.0	2.4
EV / Operating Income	5.3	5.1	3.8	3.0
Dividend Yield (%)	5.9	6.3	8.7	9.7
Operating Ratios				
EBITDA Margins (%)	15.0	11.4	15.7	16.7
Effective Tax Rate (%)	9.1	23.9	26.6	26.7
Net Profit Margins (%)	8.9	6.4	7.4	8.1
NWC / Total Assets (%)	(1.5)	1.5	6.0	11.3
Fixed Asset Turnover (x)	1.3	1.5	1.3	1.2
Working Capital Days	29.1	18.6	16.1	16.8
Net Debt / Equity %	36.8	33.8	28.4	17.2
Profitability Ratios				
RoCE (%)	13.0	10.0	11.4	11.5
RoCE (Pre-tax) (%)	14.3	13.1	15.5	15.7
RoE (%)	19.7	16.2	16.7	17.5

Source Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
