BUY (Maintained)

CMP: **INR 280** Target Price: **INR 340 (INR 325)** ▲ 21%

ICICI Securities

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22 May 2024

India | Equity Research | Q4FY24 results review

Oil and Natural Gas Corporation

Oil & Gas

KG on track to help reverse decade-long production decline

ONGC reported adjusted EBITDA/PAT (standalone) for Q4FY24 of INR 166.9bn (-4% YoY)/INR 98.7bn (+12% YoY) vs. I-Sec's estimate of INR 188.5/INR 98.1bn. Sharply higher other opex and flat production drove the YoY EBITDA dip, with higher other income and lower taxes. FY24 standalone EBITDA/PAT came in at INR 668bn (-13% YoY)/INR 405bn (+4% YoY). Consolidated EBITDA/PAT of INR 1.03trn/INR 504.5bn in FY24 has been very strong, driven by a sharp recovery in subsidiaries HPCL/MRPL's earnings, even as OVL's earnings remained subdued. Going forward, the commencement of the large KG basin asset remains the key performance driver over FY25-26E – will likely fuel a material jump in production. We also expect conspicuous recovery in HPCL/MRPL's earnings prospects coupled with reducing leverage in ONGC's consolidated balance sheet. Reiterate **BUY**.

Brent prices rise, ONGC realisation improves QoQ

Brent crude prices averaged USD 82.8/bbl in Q4 with continuous supply cuts from Russia and Saudi Arabia, geopolitical issues and low inventories in USA offsetting the continuing demand concerns, specifically from China and western Europe. Q4FY24's average realisation of USD 74.1/bbl (net windfall tax of USD 6.7/bbl) was up 3.4% YoY/up 2.1% QoQ (vs. USD 72.6/bbl in Q3). Crude prices have remained at USD 84–85/bbl levels over Q1FY25, but the adjustments in windfall taxes have been keeping pace to maintain net realisation at USD 74–76/bbl, well above its historical averages over FY15–23. The only clear risk to realisations, therefore, remains an unforeseen bearish trend in crude prices dragging Brent prices to <USD 75/bbl for a sustainable period, which we believe is unlikely.

Gas prices to remain above long-term average

Q4FY24 gas price realisation of INR 21.1/scm was down 20.7%/1% YoY/QoQ driven by a reduction of ONGC's APM gas price cap to USD 6.5/mmbtu for FY24/25, from USD 8.6/mmbtu in H2FY23. However, given KG basin's gas eligibility for premium pricing and the recent proposal for new well production to get a 20% premium to APM prices, we see net gas realisation averaging INR 22.7/scm over FY25–27E, above INR 19.7/scm seen in FY24. We note, these prices compare quite favourably with FY18–23's average blended price of INR 10.9/scm.

Financial Summary

Y/E March (INR bn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	6,430	7,430	7,877	8,155
EBITDA	1,028	1,169	1,317	1,375
EBITDA %	16.0	15.7	16.7	16.9
Net Profit	504	585	674	700
EPS (INR)	40.1	46.5	53.5	55.7
EPS % Chg YoY	15.5	16.0	15.1	4.0
P/E (x)	7.0	6.0	5.2	5.0
EV/EBITDA (x)	4.2	3.6	2.8	2.3
RoCE (Pre-tax) (%)	16.2	15.6	16.1	14.9
RoE (%)	16.3	16.4	16.9	15.7

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Market Data

Market Cap (INR)	3,524bn
Market Cap (USD)	42,297mn
Bloomberg Code	ONGC IN
Reuters Code	ONGC.BO
52-week Range (INR)	293 /150
Free Float (%)	31.0
ADTV-3M (mn) (USD)	58.3

Price Performance (%)	3m	6m	12m
Absolute	2.6	46.5	69.9
Relative to Sensex	1.4	33.9	50.1

Earnings Revisions (%)	FY25E	FY26E
Revenue	1.2	1.5
EBITDA	(2.8)	(1.3)
EPS	0.9	2.5

Previous Reports

13-02-2024: Q3FY24 results review

13-11-2023: Q2FY24 results review

Production to see meaningful increase

Q4FY24 oil production stood at 5.36mt, up 2% YoY, whereas, gas production stood at 5.1bcm, down 3% YoY. Oil and gas production for FY24 declined by 1.6%/3.3% YoY respectively due to: 1) Shutdown in Panna-Mukta offshore platforms, for the commissioning of new crude oil pipeline for modernisation in H1. 2) Cyclone Biparjoy (Jun'23). 3) Natural decline from mature fields. 4) Crude oil production of a southern asset in Q3 being hampered, as a refinery stopped receiving oil, following a leakage in their pipeline.

ONGC's standalone production of oil and gas (including JV share) has steadily declined over the past five years. With the start of production from the KG basin and new assets, we believe this anomaly should get redressed over the next few years. We are, therefore, optimistic on production prospects, and we factor in a CAGR of ~6.6% in oil and gas output (standalone) over FY25–27E. We have increased our oil and gas production estimates for FY25/26 to factor in a slightly better-than-expected performance of KG basin production over Q4FY24.

Stock price up ~47% in the past six months; maintain BUY

We have raised our FY25/FY26E EPS by 1%/2.5% to factor in the higher KG output. Stronger cash flow and production outlook, coupled with meatier subsidiary earnings over the next two–three years and higher investment value of listed investments drive the uptick in our TP to INR 340 (from INR 325), 21% upside from CMP. Maintain **BUY**.

Key risks: 1) Sharp reversal in oil & gas price trends. 2) Slower-than-expected ramp up of production from KG basin. 3) Any unexpected regulatory setbacks.

Conference call: Takeaways

Operational highlights

- The company drilled 541 wells, comprising 103 exploratory and 438 developments – its highest in the past 34 years.
- Stronger performance by HPCL and MRPL (subsidiaries) led to an increase in consolidated profit.
- During the year, the company made 11 discoveries and the replacement ratio of 2P reserves was 1.15.
- Out of 11 new discoveries, seven have been monetised. ONGC plans to monetise eight–ten discoveries in FY25.
- The company has 37 offshore rigs that are operational; it also has two floaters.
- Windfall tax is not applicable on KG 98/2 field.

Capex

- The company incurred capex of INR 370bn in FY24; the capex guidance for FY25 stands at INR 330–350bn. Capex/equity contribution towards OPAL and green energy ltd would be over and above this.
- The increase in capex for FY24 was due to – issues at KG 98/2 with respect to a change in contractor and settlement; settled a number of cases under the *Vivad se Vishwas* scheme, which amounted to INR 20bn; and spent INR 2.5bn on its Goa infrastructure.

Production Outlook

- In FY24, the decline in production from its mature fields was 7–8%; however, with newer fields, the decline was controlled to the tune of 2%.
- The decline in gas production of 3% in Q4FY24 shall be compensated going forward via incremental production from KG 98/2 and other new assets.
- Gas production in FY25 to increase primarily from KG 98/2. ONGC is working on monetising stranded gas of ~0.3bcm at Urja Ganga and Indradhanush; Newer fields, other than KG, will contribute an additional 1.5bcm over the next two–three years.
- The KG 98/2 asset should see a ramp up in gas production from Q3FY25 with average gas volume of 1bcm for FY25; peak volume to be achieved by Q4FY25.
- ONGC currently produces 12kb/d of oil from KG 98/2, which it will ramp up to ~20kb/d in Q3FY25E and an exit rate of >40kb/d by FY25E-end. The current HPHT production is 2.4mmscmd, out of which 1.6mmscmd is from KG 98/2 and 0.8mmscmd is from its other fields – S1 and Vasishta.
- Management has guided for production of 39.45mtoe for FY25 and 47mtoe by FY27, with 12% growth coming from Oil and 27% from Gas

OPAL

- ONGC has already announced an investment of INR 180bn for OPAL, including warrants and convertible instruments. INR 9bn has already been invested. On the operational performance front, OPAL reported a net loss of INR 35bn in FY24 vs. a loss of INR 41bn in FY23; (profit before tax) PBT loss was of INR 43bn vs. a loss of INR 39bn in FY23. At the EBITDA-level, loss was of INR 4.8bn. The company expects OPAL to achieve breakeven by FY26.
- OVL production for FY24 was 10.518mtoe; the company plans to achieve 11/11.22mtoe for FY25/FY26E.

Exhibit 1: Standalone financial snapshot

(INR mn)	Q4FY24	Q4FY23	% chg YoY	Q3FY24	% chg QoQ	FY24	FY23	% Chg
Net sales	3,26,857	3,47,316	-5.9	3,21,431	1.7	12,97,411	14,45,563	-10.2
EBITDA	1,66,847	1,74,633	-4.5	1,63,474	2.1	6,92,806	8,04,254	-13.9
OPM (%)	98,694	(2,477)		95,357		3,96,364	3,88,289	2.1
Other inc.	98,694	88,121	12.0	95,357	3.5	3,96,364	4,78,886	-17.2
Interest	7.8	7.0	12.0	7.6	3.5	31.5	38.1	-17.2
Depreciation	3,26,857	3,47,316	-5.9	3,21,431	1.7	12,97,411	14,45,563	-10.2
PBT	1,66,847	1,74,633	-4.5	1,63,474	2.1	6,92,806	8,04,254	-13.9
Reported PAT	98,694	(2,477)		95,357		3,96,364	3,88,289	2.1
Recurring PAT	98,694	88,121	12.0	95,357	3.5	3,96,364	4,78,886	-17.2
Recurring EPS (INR/sh)	7.8	7.0	12.0	7.6	3.5	31.5	38.1	-17.2

Source: Company data, I-Sec research

Exhibit 2: Operational data

	Q4FY24	Q4FY23	% chg YoY	Q3FY24	% chg QoQ	FY24	FY23	% Chg
Oil sales (mt)	4.69	4.68	0.2	4.72	-0.6	18.80	19.16	-1.9
Gas sales (bcm)	3.82	4.13	-7.4	3.97	-3.8	15.92	16.66	-4.4
Oil production (mt)	5.36	5.24	2.4	5.22	2.7	21.1	21.5	-1.6
Gas production (bcm)	5.10	5.26	-3.1	5.12	-0.5	20.6	21.4	-3.3
Total production (mtoe)	10.46	10.50	-0.4	10.34	1.1	41.8	42.8	-2.5
Total Value-added Product (TMT)	622.00	613.00	1.5	573.00	8.6	2,427.0	2,514.5	-3.5

Source: Company data, I-Sec research

Exhibit 3: Pricing data

Realisation highlights	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Oil Realisation USD/bbl	75.7	95.0	108.5	72.6	77.0	71.8	74.0	73.4	72.5	74.1
Brent USD/bbl	79.4	96.0	110.0	100.7	88.3	81.3	78.0	86.6	84.3	82.8
Gas Realisation USD/mmbtu	3.1	3.2	6.3	6.3	8.8	8.9	7.1	6.8	6.9	6.9
LPG realisation (USD/mt)	811.4	811.1	948.6	772.7	658.9	734.2	662.3	519.6	658.2	684.5
Naphtha realisation (USD/bbl)	85.6	99.9	93.2	75.9	72.1	75.0	65.9	70.6	72.8	72.9
C2-C3 realisation (USD/mt)	503.7	492.2	597.1	567.2	649.9	704.6	586.4	608.9	613.2	635.5

Source: Company data, I-Sec research

Exhibit 4: Consolidated financial snapshot

INR mn	Q4FY24	Q4FY23	% chg YoY	Q3FY24	% chg QoQ	FY24	FY23	% Chg
Net sales	**16,67,706**	**16,40,667**	**1.6**	**16,55,691**	**0.7**	**64,30,370**	**68,48,292**	**-6.1**
EBITDA	**2,40,534**	**2,66,820**	**-9.9**	**2,15,400**	**11.7**	**10,54,790**	**8,46,005**	**24.7**
OPM (%)	14%	16%		13%		16%	12%	
Other inc.	31,046	26,621	16.6	40,591	-23.5	1,22,219	80,741	51.4
Interest	26,828	20,681	29.7	25,441	5.4	1,01,942	78,894	29.2
Depreciation	86,910	95,325	-8.8	86,099	0.9	3,25,948	3,07,586	6.0
PBT	**1,57,842**	**1,77,435**	**-11.0**	**1,44,451**	**9.3**	**7,49,119**	**5,40,266**	**38.7**
Share of profit of associates/JV	11,776	(15,231)	**-177.3**	707		23,960	341	6,934.7
Minority Interest	14,192	19,860		3,920		78,795	(26,629)	
Exceptional items	(17,334)	(1,03,167)		7		(16,364)	(1,10,099)	
Reported PAT	1,01,074	37,155	172.0	1,03,564	-2.4	4,83,318	3,54,405	36.4
Recurring PAT	**1,14,044**	**1,14,354**	**-0.3**	**1,03,559**	**10.1**	**4,95,564**	**4,38,537**	**13.0**
Recurring EPS (INR/sh)	**9.1**	**9.1**	**(0.3)**	**8.2**	**10.1**	**39.4**	**34.9**	**13.0**

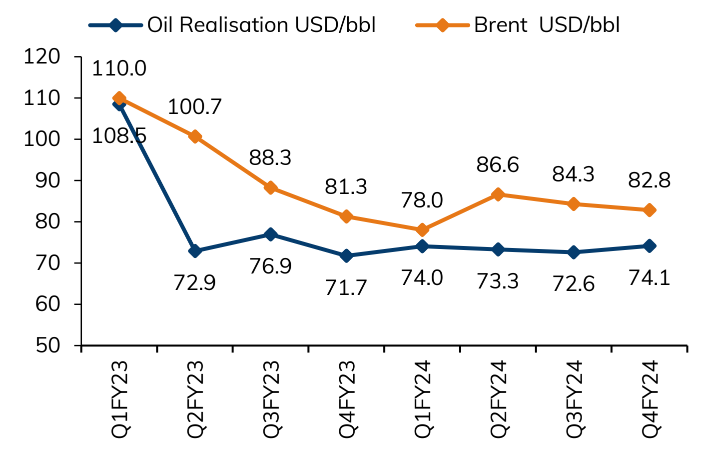
Source: Company data, I-Sec research

Exhibit 5: OVL volume snapshot

OVL Volumes	Q4FY24	Q4FY23	% chg YoY	Q3FY24	% chg QoQ	FY24	FY23	% Chg
OVL Prod Volumes								
Oil (MMT)	1.8	1.7	4.9	1.8	-1.9	7.2	6.3	13.0
Gas (Bcm)	0.8	1.0	(13.0)	0.9	-1.9	3.3	3.8	-12.6
Total mtoe	**2.6**	**2.7**	**(1.6)**	**2.7**	**-1.9**	**10.5**	**10.2**	**3.4**
OVL Sales Volumes								
Oil (MMT)	1.2	1.3	(5.5)	1.2	-3.3	4.9	5.2	-6.4
Gas (Bcm)	0.4	0.5	(14.3)	0.5	-7.7	2.0	2.6	-21.7
Total mtoe	**1.6**	**1.8**	**(8.1)**	**1.7**	**-4.5**	**6.9**	**7.8**	**-11.5**

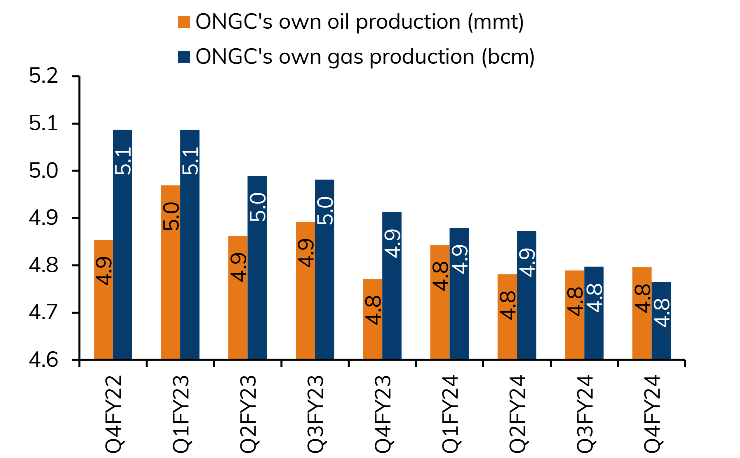
Source: Company data, I-Sec research

Exhibit 6: ONGC's net realisation was impacted by windfall tax in last 7 quarters



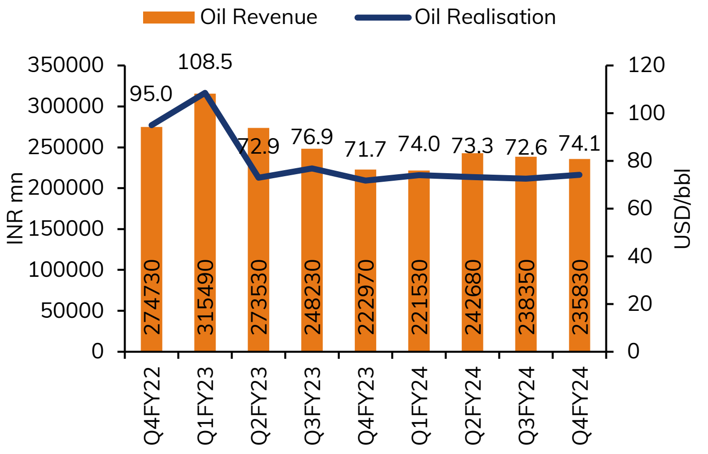
Source: Company data, I-Sec research

Exhibit 7: ONGC's standalone (excl. JV) production remains muted in Q4FY24



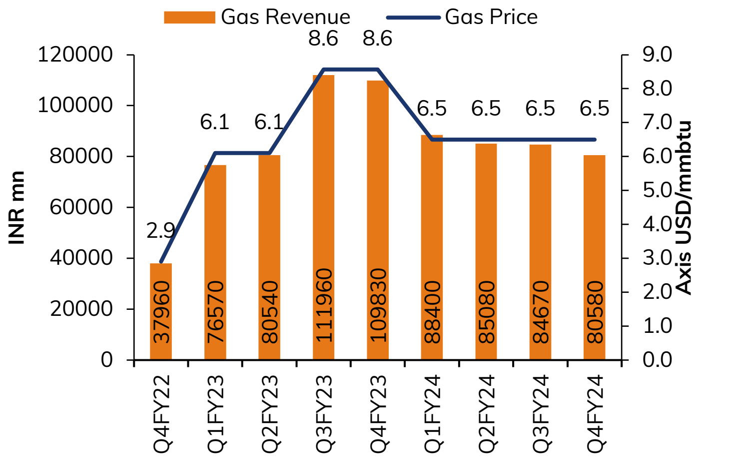
Source: Company data, I-Sec research

Exhibit 8: Oil revenue impacted by windfall tax in last 7 quarters



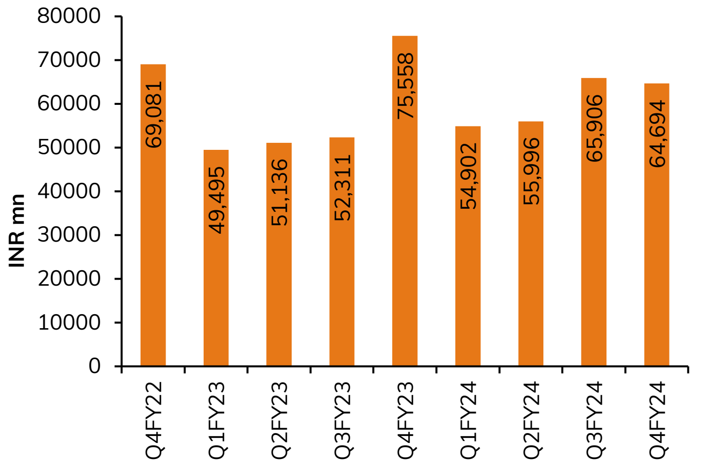
Source: Company data, I-Sec research

Exhibit 9: Gas revenue impacted in FY24 due to new gas pricing policy



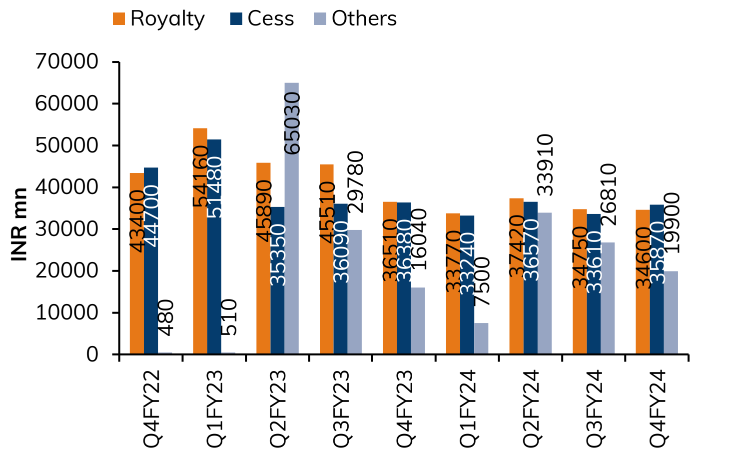
Source: Company data, I-Sec research

Exhibit 10: Depreciation decreased YoY and QoQ



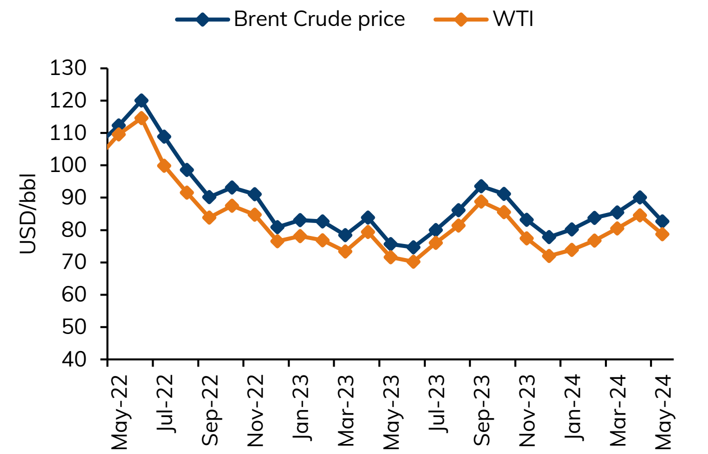
Source: Company data, I-Sec research

Exhibit 11: Other opex/costs include Q2FY23's windfall tax



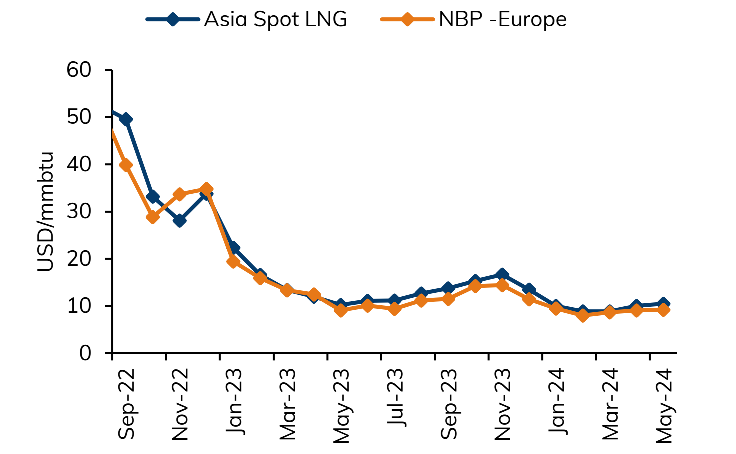
Source: Company data, I-Sec research

Exhibit 12: Crude prices are moderating...



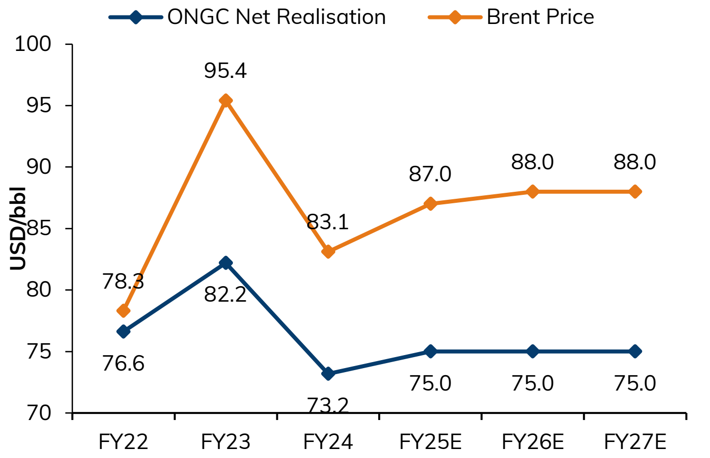
Source: Bloomberg, I-Sec research; Nov'23 prices are upto 11th Nov

Exhibit 13: ...so are global LNG prices



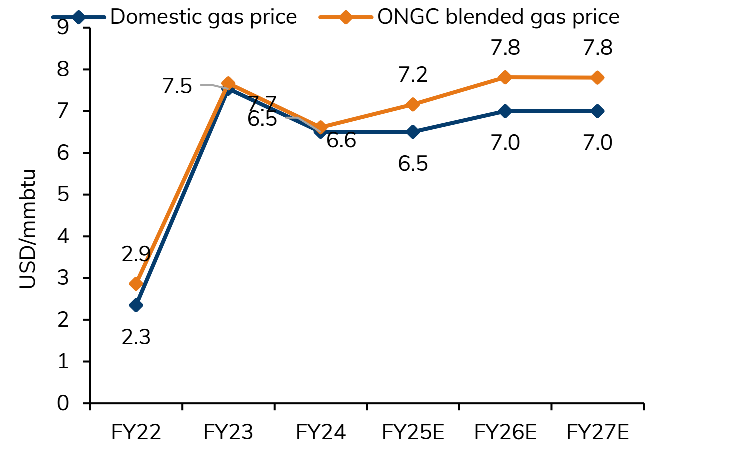
Source: Bloomberg, I-Sec research; Nov'23 prices are upto 11th Nov

Exhibit 14: Brent crude estimates and ONGC net price for FY22–27E



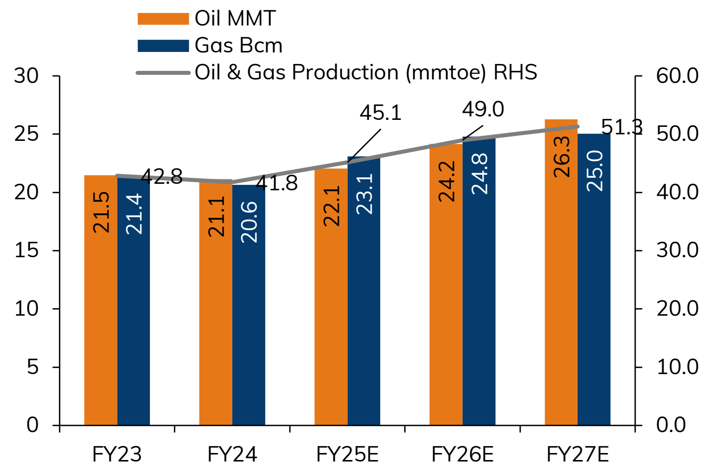
Source: Company data, I-Sec research

Exhibit 15: ONGC blended gas realisation over FY22–27E



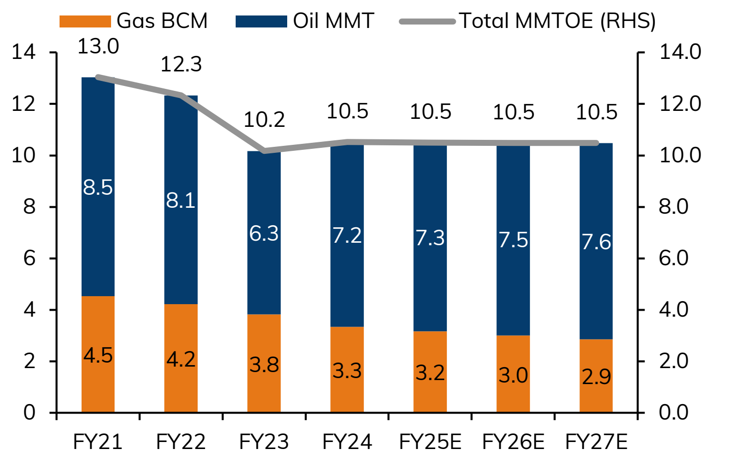
Source: Company data, I-Sec research

Exhibit 16: ONGC standalone production CAGR likely at 6.6% over FY25–27E



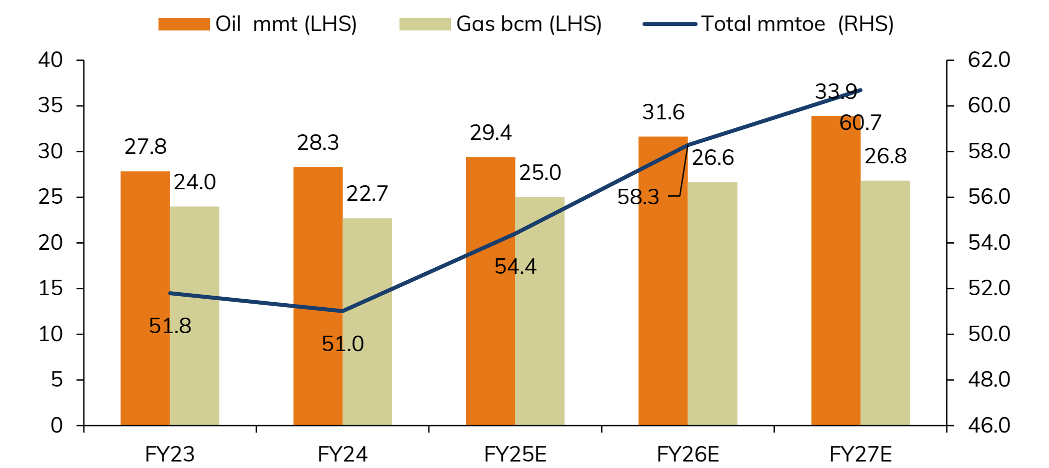
Source: Company data, I-Sec research

Exhibit 17: OVL production likely to remain muted over FY25–27E



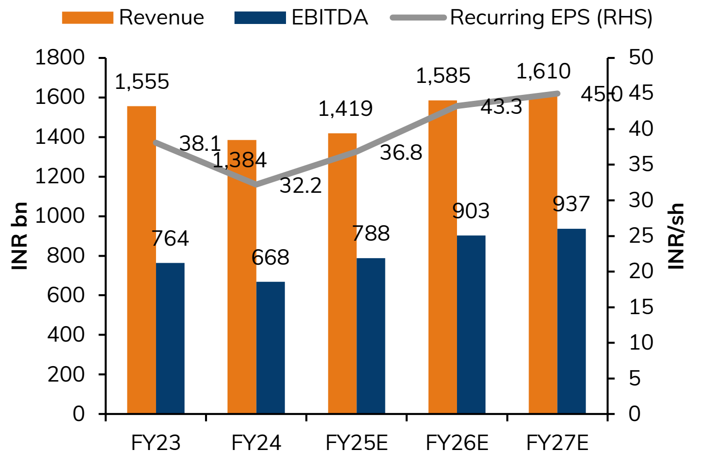
Source: Company data, I-Sec research

Exhibit 18: ONGC group oil & gas production CAGR likely at 5.6% over FY25–27E



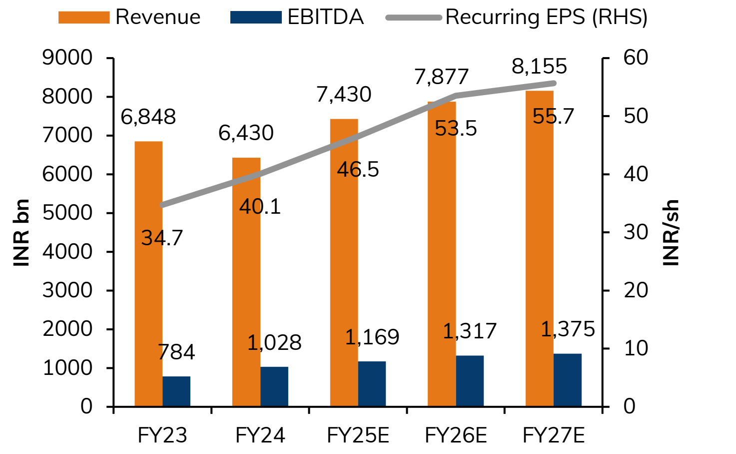
Source: Company data, I-Sec research

Exhibit 19: ONGC standalone earnings to grow over FY25–27E



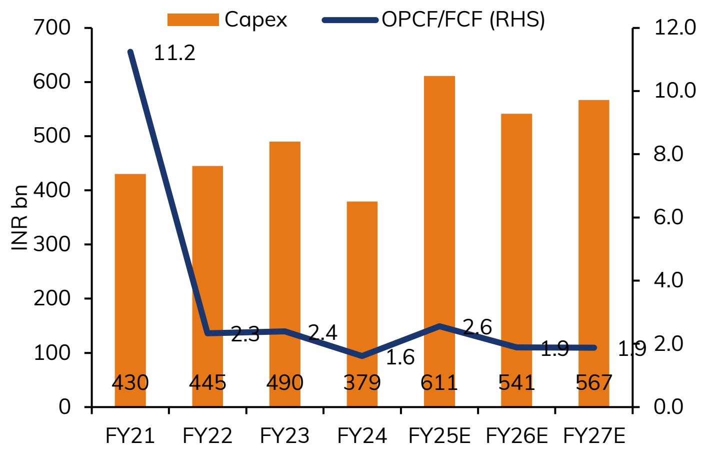
Source: Company data, I-Sec research

Exhibit 20: ONGC group earnings to grow over FY25–27E



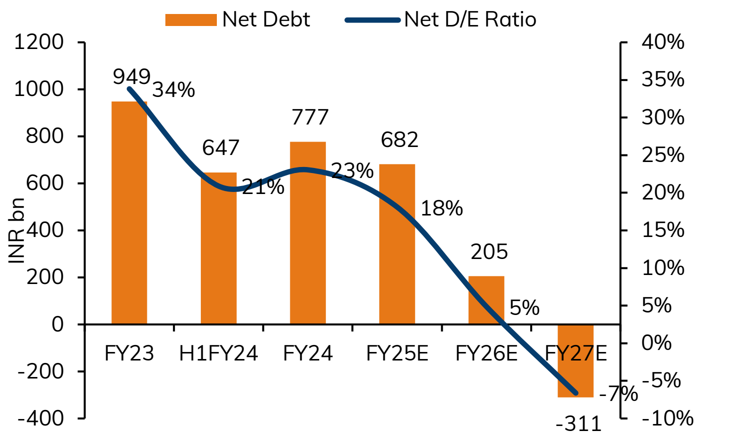
Source: Company data, I-Sec research

Exhibit 21: Higher capex supported by strong OPCF/FCF



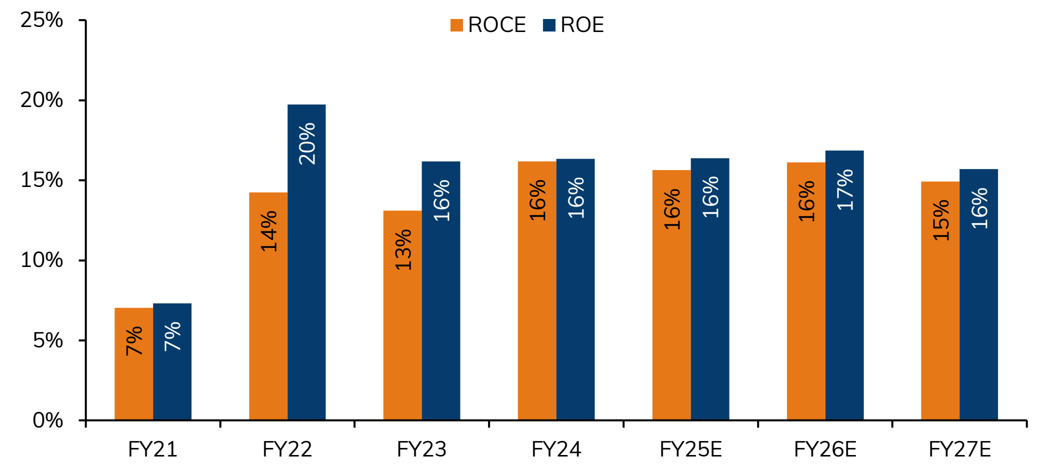
Source: Company data, I-Sec research

Exhibit 22: Leverage to decline materially



Source: Company data, I-Sec research

Exhibit 23: Return ratios may remain healthy



Source: Company data, I-Sec research

Valuations unchallenging – our fair value implies 21% upside

We arrive at a DCF-based EV of INR 325/share for ONGC's standalone business and OVL factoring in: 1) net realisation of USD 75/bbl for crude (USD 70/bbl thereafter), and blended gas realisation of ~INR 22.4/scm in FY25E/26E. 2) ~6.6% CAGR (standalone including JV: 9.1% CAGR for oil and 4.2% CAGR for gas) in production over FY25-FY27E and a steady decline thereafter.

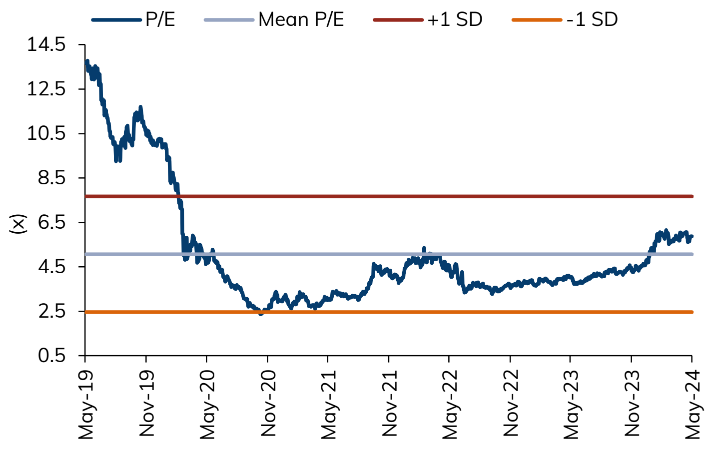
We value other listed investments/subsidiaries at ~20% discount to CMP and netting off for net debt, **we get a fair value of INR 340/sh for ONGC**. The stock should also benefit from the steadily rising dividend yield, which is at ~4.6% based on FY24 pay-out and is forecast to stay at ~5.7% levels over FY25–26E.

Exhibit 24: Valuation summary

	Reserves	Fair value		
	mmboe	USD/boe	USD mn	INR/share
DCF value of 2P reserves	7,289	6.3	45,961	303
16% stake in Mozambique Area 1 gas discoveries at cost	516	3.0	1,548	10
Value of Russian assets	1,148	1.5	1,722	11
Valuation of E&P assets	**8,953**	**5.5**	**49,232**	**325**
Net debt				
Market value of investments			-8545	(56)
Target price (INR/sh)			**10,882**	**72**
Upside			**51,568**	**340**

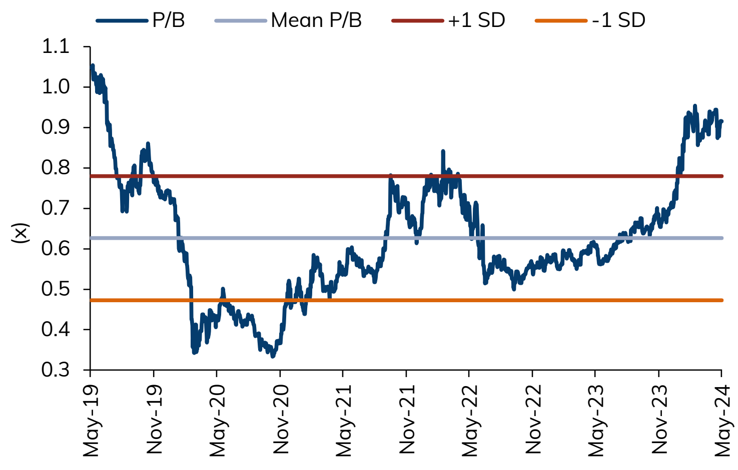
Source: Company data, I-Sec research

Exhibit 25: ONGC's P/E trading above 5-year average band



Source: Company data, I-Sec research

Exhibit 26: ONGC's' P/B trading above higher band



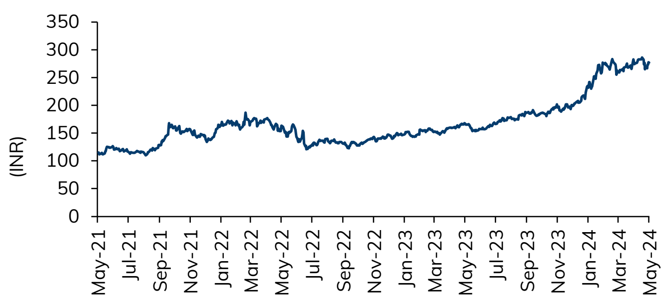
Source: Company data, I-Sec research

Exhibit 27: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	58.9	58.9	58.9
Institutional investors	28.0	27.9	27.8
MFs and others	8.5	7.6	7.4
FIs/Banks	0.0	0.0	0.0
Insurance	10.7	10.7	11.1
FIIs	8.8	9.6	9.3
Others	13.1	13.2	13.4

Source: Bloomberg

Exhibit 28: Price chart



Source: Bloomberg

Financial Summary

Exhibit 29: Profit & Loss

(INR bn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	**6,430**	**7,430**	**7,877**	**8,155**
EBITDA	**1,028**	**1,169**	**1,317**	**1,375**
EBITDA Margin (%)	16.0	15.7	16.7	16.9
Depreciation & Amortization	288	369	399	430
EBIT	741	800	918	945
Interest expenditure	102	68	71	76
Other Non-operating Income	122	131	150	170
PBT	**761**	**863**	**997**	**1,040**
Profit / (Loss) from Associates	**24**	**26**	**28**	**29**
Less: Taxes	198	230	261	273
PAT	547	633	735	767
Less: Minority Interest	79	74	89	96
Net Income (Reported)	**492**	**585**	**674**	**700**
Extraordinaries (Net)	(16)	-	-	-
Recurring Net Income	**504**	**585**	**674**	**700**

Source Company data, I-Sec research

Exhibit 30: Balance sheet

(INR bn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	1,280	1,511	2,068	2,652
of which cash & bank	367	524	1,079	1,673
Total Current Liabilities & Provisions	1,095	1,156	1,179	1,197
Net Current Assets	**185**	**354**	**889**	**1,456**
Other Non-Current Assets	641	645	647	648
Net Fixed Assets	2,863	3,010	3,030	3,019
Other Fixed Assets	121	124	126	129
Capital Work in Progress	1,160	1,188	1,243	1,323
Non-Investment	968	1,168	1,191	1,215
Current Investment	54	54	54	54
Deferred Tax assets	14	14	14	14
Total Assets	**6,007**	**6,557**	**7,194**	**7,858**
Liabilities				
Borrowings	**1,198**	**1,260**	**1,338**	**1,416**
Deferred Tax Liability	**382**	**382**	**382**	**382**
Lease Liability	255	260	265	271
Other Liabilities	522	532	542	553
Equity Share Capital	63	63	63	63
Reserves & Surplus*	3,308	3,707	4,162	4,636
Total Net Worth	**3,371**	**3,770**	**4,224**	**4,698**
Minority Interest	280	354	443	539
Total Liabilities	**6,007**	**6,557**	**7,194**	**7,858**

Source Company data, I-Sec research

Exhibit 31: Quarterly trend

(INR bn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	338	352	348	346
% Growth (YoY)	-7%	4%	-1%	0%
EBITDA	182	180	163	167
Margin %	54%	51%	47%	48%
Other Income	16	21	34	37
Extraordinaries	0	0	0	0
Adjusted Net Profit	100	102	95	99

Source Company data, I-Sec research

Exhibit 32: Cashflow statement

(INR bn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Cash Flow from operation before working Capital	**1,137**	**1,234**	**1,382**	**1,440**
Working Capital Changes	1	(1)	34	42
Tax	(146)	(230)	(261)	(273)
Operating Cashflow	**993**	**1,003**	**1,154**	**1,209**
Capital Commitments	(377)	(611)	(541)	(567)
Free Cashflow	**616**	**391**	**613**	**642**
Others CFI	(196)	(43)	154	176
Cashflow from Investing Activities	**(573)**	**(654)**	**(387)**	**(391)**
Inc (Dec) in Borrowings	(154)	62	78	78
Interest Cost	(77)	(68)	(71)	(76)
Others	(225)	(186)	(219)	(226)
Cash flow from Financing Activities	**(457)**	**(192)**	**(212)**	**(224)**
Chg. in Cash & Bank balance	**(37)**	**157**	**555**	**594**
Closing cash & balance	367	524	1,079	1,673

Source Company data, I-Sec research

Exhibit 33: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Recurring EPS	40.1	46.5	53.5	55.7
Diluted EPS	40.1	46.5	53.5	55.7
Recurring Cash EPS	63.0	75.8	85.3	89.8
Dividend per share (DPS)	12.9	14.8	17.4	18.0
Book Value per share (BV)	267.9	299.7	335.8	373.5
Dividend Payout (%)	32.2	31.8	32.5	32.3
Growth (%)				
Net Sales	(6.1)	15.6	6.0	3.5
EBITDA	31.2	13.6	12.7	4.4
EPS	15.5	16.0	15.1	4.0
Valuation Ratios (x)				
P/E	7.0	6.0	5.2	5.0
P/CEPS	4.4	3.7	3.3	3.1
P/BV	1.0	0.9	0.8	0.7
EV / EBITDA	4.2	3.6	2.8	2.3
EV / Operating Income	5.0	4.5	3.5	2.9
Dividend Yield (%)	4.6	5.3	6.2	6.4
Operating Ratios				
EBITDA Margins (%)	16.0	15.7	16.7	16.9
Effective Tax Rate (%)	26.5	26.6	26.2	26.2
Net Profit Margins (%)	7.8	7.9	8.6	8.6
NWC / Total Assets (%)	3.1	5.4	12.4	18.5
Fixed Asset Turnover (x)	1.3	1.4	1.3	1.3
Working Capital Days	20.3	22.7	21.8	21.6
Net Debt / Equity %	23.0	18.1	4.9	(6.6)
Profitability Ratios				
RoCE (%)	11.9	11.5	11.9	11.0
RoCE (Pre-tax) (%)	16.2	15.6	16.1	14.9
RoE (%)	16.3	16.4	16.9	15.7

Source Company data, I-Sec research

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