

ONGC

Performance Highlights

ONGC registered higher-than-expected set of numbers for 4QFY2010 on account of increase in Net Realisation on a yoy basis and increase in other Operating Income during the year despite higher-than-expected Subsidy burden and DD&A expenditure. **On account of the recent APM gas price hike coupled with expectations of further reforms going ahead, we maintain our Accumulate view on the stock.**

Operating Profit above expectation; DD&A too exceeds expectation: For 4QFY2010, ONGC registered Top-line and Bottom-line growth of 13.2% and 71.1% yoy, respectively. Increase in Top-line to Rs16,002cr (Rs14,133cr) is attributed to the increase in Net Realisation on a yoy basis and increase in other Operating Income. Net Realisations stood at US \$51.4/bbl (US \$43.4/bbl), up 18.5% yoy. EBITDA came in higher than our estimate primarily on account of the higher-than-anticipated other Operating Income during the quarter and higher sales of value-added products. Depreciation, Depletion and Amortisation (DD&A) costs increased by 4.8% yoy to Rs4,448cr (Rs4,244cr), which was higher than our estimate of Rs3,950cr. Other Income during the quarter fell 52.1% yoy to Rs469cr (Rs980cr). Net Profit surged 71.1% yoy to Rs3,776cr (Rs2,207cr), which was higher than our estimate of Rs3,398cr. This was mainly on account of higher Top-line growth.

Outlook and Valuation: ONGC's stock price has corrected significantly on account of the flattish production outlook and uncertainty over the government's policy action, resulting in stagnant Earnings growth. However, after the APM price hike, we believe that the risk-reward ratio is now favourable, with limited downside from current levels. Moreover, the chances of further reforms in the Oil sector have strengthened after the bold decision by the government to hike the APM gas prices. Also, the EGoM is likely to consider the Kirit Parikh Committee recommendations. Thus, any positive announcements on the Policy front, which makes the Subsidy-sharing formula transparent and crude-linked, will act as a catalyst for the ONGC stock. We believe that the increase in APM gas prices has provided the required boost to ONGC's Earnings growth and a re-rating trigger for the stock.

Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	104,588	101,760	117,551	124,021
% chg	8.1	-2.7	15.5	5.5
Net Profits	19,795	19,404	24,505	26,372
% chg	-0.4	-2.0	26.3	7.6
OPM (%)	41.3	43.7	44.9	46.1
EPS (Rs)	92.5	90.7	114.6	123.3
P/E (x)	12.2	12.5	9.9	9.2
P/BV (x)	2.6	2.4	2.0	1.8
RoE (%)	23.4	20.0	22.2	20.8
RoCE (%)	24.5	19.4	23.3	23.3
EV/Sales (x)	2.2	2.1	1.8	1.7
EV/EBITDA (x)	5.2	4.9	4.0	3.6

Source: Company, Angel Research

ACCUMULATE

CMP	Rs1,131
Target Price	Rs1,233

Investment Period	12 Months
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Stock Info

Sector	Oil & Gas
Market Cap (Rs cr)	241,856
Beta	0.7
52 WK High / Low	1,274/965
Avg. Daily Volume	303389
Face Value (Rs)	10
BSE Sensex	16,863
Nifty	5,067
Reuters Code	ONGC.BO
Bloomberg Code	ONGC@IN

Shareholding Pattern (%)

Promoters	74.1		
MF/Banks/Indian FLs	20.0		
FII/NRIs/OCBs	4.2		
Indian Public	1.7		
Abs. (%)	3m	1yr	3yr
Sensex	2.6	18.0	17.1
ONGC	1.2	0.0	24.0

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Exhibit 1: 4QFY2010 Performance

Y/E March (Rs cr)	4QFY10	4QFY09	%chg	FY10	FY09	%chg
Net Sales	16,002	14,133	13.2	61,983	64,548	(4.0)
Total operating expenditure	6,584	7,924	(16.9)	24,491	32,650	(25.0)
EBITDA	9,418	6,209	51.7	37,491	31,897	17.5
EBITDA Margin %	58.9	43.9		60.5	49.4	
Other Income	469	980	(52.1)	2,220	4,221	(47.4)
Depreciation	4,448	4,244	4.8	14,659	12,085	21.3
Interest	56	14	312.4	69	119	(42.3)
PBT	5,383	2,931	83.7	24,984	23,915	4.5
PBT Margin %	33.6	20.7		40.3	37.0	
Total Tax	1,607	724	121.8	8,216	7,832	4.9
% of PBT	29.8	24.7		32.9	32.7	
PAT	3,776	2,207	71.1	16,768	16,083	4.3
Exceptional items	-	-	0.0	-	43	0.0
Adj. PAT	3,776	2,207	71.1	16,768	16,126	4.0
PAT Margin %	23.6	15.6		27.1	25.0	

Source: Company, Angel Research

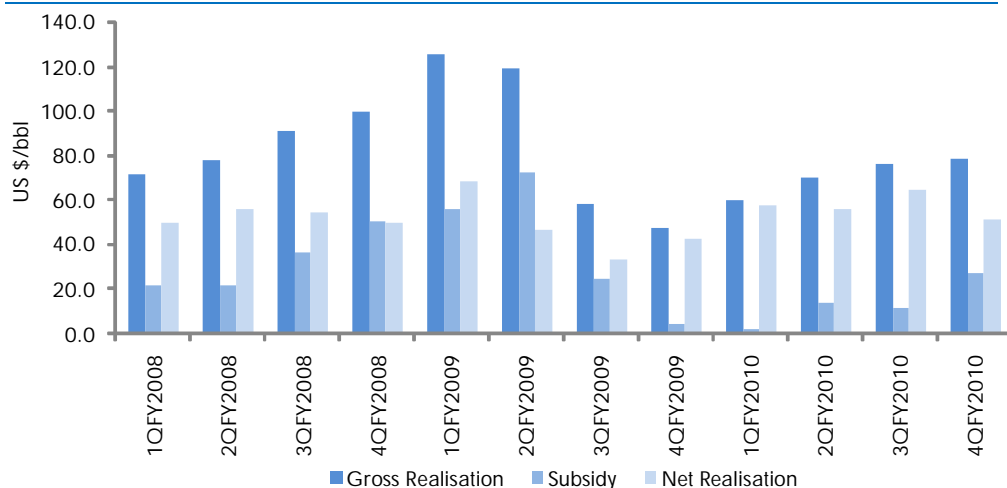
Exhibit 2: Segmental Performance

Y/E March (Rs cr)	4QFY10	4QFY09	%chg	FY10	FY09	%chg
In India						
Offshore E&P	12,338	9,328	32.3	46,865	45,457	3.1
Onshore E&P	3,883	4,805	(19.2)	15,336	19,091	(19.7)
Unallocated	-	-		-	-	
Total revenue	16,221	14,133	14.8	62,201	64,548	(3.6)
EBIT						
Offshore E&P	4,593	588	681.8	19,564	18,810	4.0
%EBIT	37	6		42	41	
Onshore E&P	616	1,529	(59.7)	4,258	1,805	135.9
%EBIT	16	32		28	9	
Unallocated	-	-		-	-	
Total EBIT	5,209	2,116	146.1	23,822	20,615	15.6
%EBIT	32.1	15.0		38.3	31.9	
Less: Interest payment	56	14	312.4	69	119	(42.3)
Less: Other unallocable exp. net of income	(230)	(828)	(72.2)	(1,231)	(3,419)	(64.0)
PBT before extraordinary items	5,383	2,931	83.7	24,984	23,915	4.5
Extraordinary gain	-	-		-	66	
PBT	5,383	2,931	83.7	24,984	23,981	4.2

Source: Company, Angel Research

Net Crude Realisation at US \$51.4/bbl: ONGC's Top-line registered 13.2% yoy growth to Rs16,002cr (Rs14,133cr) during the quarter primarily on account of the increase in Net Realisation on a yoy basis and increase in other Operating Income during the quarter. ONGC's Top-line growth was higher than our expectation of Rs14,460cr on account of the higher-than-expected other Operating Income and higher-than-expected sales of value-added products. Excluding sales of MRPL products, Top-line grew 28.4% yoy to Rs16,002cr (Rs12,463cr). ONGC's MoU with MRPL to market the latter's products ended w.e.f March 31, 2009. ONGC's Gross Realisations from crude oil sales stood at US \$79.2/bbl (US \$47.9/bbl). During the quarter, the company shared Subsidy burden of Rs4,999cr (Rs852cr). Hence, Net Realisations stood at US \$51.4/bbl (US \$43.4/bbl), up 18.5% yoy. Gross Realisations was in line with our expectations, though Net Realisations stood lower than our estimates on account of the higher-than-anticipated Subsidy burden during the quarter. However, adjusted for the higher Subsidy burden, Net Realisation came in line with our estimates. Crude oil sales volume increased to 5.67MMT (5.57MMT) in line with our estimates. Gas sales volume rose to 5.04BCM (4.93BCM).

Exhibit 3: ONGC - Crude Realisations



Source: Company, Angel Research

EBITDA higher than estimated: EBITDA for 4QFY2010 came in higher than our estimate despite higher-than-anticipated Subsidy burden on account of higher-than-anticipated other Operating income. Thus, adjusted for the Subsidy burden, EBITDA was higher than our estimate at Rs9,418cr (Rs6,209cr), up 51.7% yoy. OPM increased by 1,492bp yoy to 58.9% (43.9%) on account of the absence of trading sales of MRPL products and higher net crude oil realisations. Adjusting for trading sales of MRPL products, OPM increased by 903bp yoy to 58.9% (49.8%).

DD&A cost increases; Other Income declines: Depreciation, Depletion and Amortisation cost (DD&A) cost increased by 4.8% yoy to Rs4,448cr (Rs4,244cr), which was higher than our estimate of Rs3,950cr. Other Income during the quarter declined by 52.1% yoy to Rs469cr (Rs980cr).

PAT increases by 71.1%: Net Profit during the quarter surged 71.1% yoy to Rs3,776cr (Rs2,207cr), which was higher than our estimate of Rs3,398cr mainly on account of the higher-than-expected Other Operating Income.

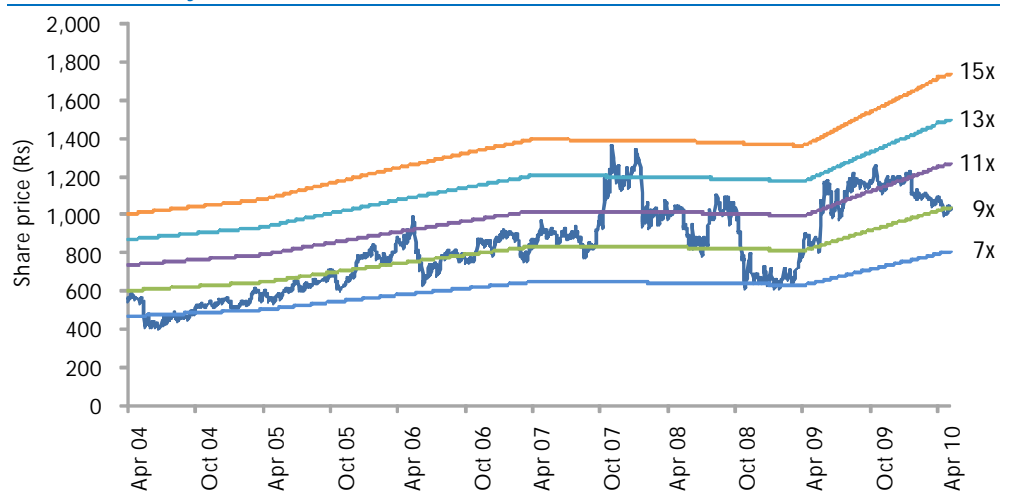
Outlook and Valuation

On the Production front, we expect production of crude and natural gas from ONGC's domestic fields to register marginal growth, with production maintained through IOR/EOR from its ageing fields. Moreover, implementation of several schemes such as the Vasai (East) project, the C-series project and the Heera project are expected to maintain the company's production volumes. On OVL front, management expects the production to decline going ahead, which is a slight negative.

ONGC's stock price has corrected significantly on account of a flattish production outlook and uncertainty over the government's policy action, resulting in a stagnant earnings growth. However, after the APM price hike, we believe that the risk-reward ratio is now favourable, with limited downside from current levels. Moreover, the chances of further reforms in the Oil Sector have strengthened after the bold decision by the government to hike the APM gas prices. The EGoM is likely to consider the Kirit Parikh Committee recommendations. Thus, any positive announcements on the Policy front, which makes the Subsidy-sharing formula transparent and crude-linked, will act as a catalyst for the ONGC stock. We believe that the increase in APM gas prices has provided the required boost to the Earnings growth of ONGC and a re-rating trigger for the stock.

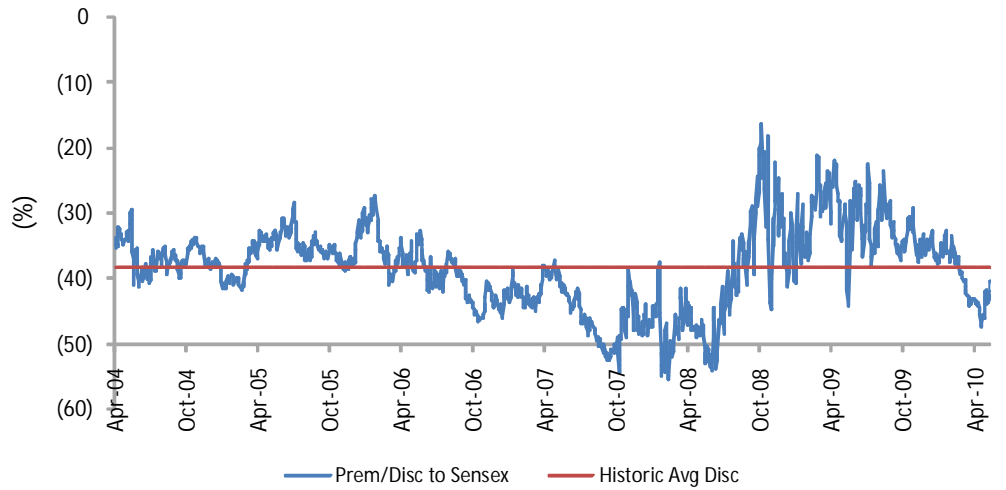
At Rs1,131, the stock is currently trading at 9.2x FY2012E EPS of Rs123.3. **We maintain an Accumulate on the stock, with a Target Price of Rs1,233**, valuing the stock at 10x FY2012E revised EPS of Rs123.3/share, translating into an upside of 9% from current levels.

Exhibit 4: One year forward P/E Band



Source: Company, Angel Research

Exhibit 5: Premium/Discount in ONGC (P/E) v/s Sensex (P/E)



Source: Company, Angel Research

Profit & Loss Statement (Consolidated)						(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Total operating income	82,262	96,782	104,588	101,760	117,551	124,021
% chg		17.7	8.1	(2.7)	15.5	5.5
Total Expenditure	46,067	55,527	61,364	57,321	64,762	66,860
Net Raw Materials	18,263	25,070	28,975	25,339	27,381	26,181
Other Mfg costs	17,179	18,419	17,678	17,015	21,277	22,944
Personnel	2,380	1,328	1,162	1,407	1,411	1,860
Other	8,245	10,710	13,549	13,560	14,694	15,875
EBITDA	36,195	41,255	43,225	44,439	52,789	57,161
% chg		14.0	4.8	2.8	18.8	8.3
(% of Net Sales)	44.0	42.6	41.3	43.7	44.9	46.1
Depreciation & Amortisation	11,968	13,888	15,430	18,739	18,493	18,824
EBIT	24,227	27,367	27,794	25,700	34,295	38,337
% chg		13.0	1.6	(7.5)	33.4	11.8
(% of Net Sales)	29.5	28.3	26.6	25.3	29.2	30.9
Interest & other Charges	418	894	1,774	556	296	349
Other Income	4,739	4,541	5,072	5,298	4,200	3,100
(% of PBT)	16.6	14.6	16.3	17.4	11.0	7.5
Recurring PBT	28,548	31,014	31,093	30,441	38,199	41,089
% chg		8.6	0.3	(2.1)	25.5	7.6
Adj. related to prior period (Net)	1,275	93	(11)	-	-	-
Extraordinary Expense/(Inc.)	(475)	-	(66)	-	-	-
PBT (reported)	27,747	30,921	31,169	30,441	38,199	41,089
Tax	9,845	10,700	11,009	10,714	13,284	14,316
(% of PBT)	35.5	34.6	35.3	35.2	34.8	34.8
PAT (reported)	17,902	20,221	20,160	19,728	24,915	26,773
Add: Share of earnings of associate	10.2	2.1	9.9	7.8	9.9	9.9
Less: Minority interest (MI)	142	351	375	332	420	410
PAT after MI (reported)	17,770	19,872	19,795	19,404	24,505	26,372
ADJ. PAT	18,245	19,872	19,861	19,404	24,505	26,372
% chg		8.9	(0.1)	(2.3)	26.3	7.6
(% of Net Sales)	22.2	20.5	19.0	19.1	20.8	21.3
Basic EPS (Rs)	83.1	92.9	92.5	90.7	114.6	123.3
Fully Diluted EPS (Rs)	83.1	92.9	92.5	90.7	114.6	123.3
% chg		11.8	(0.4)	(2.0)	26.3	7.6

Balance Sheet (Consolidated)							(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	
SOURCES OF FUNDS							
Equity Share Capital	2,139	2,139	2,139	2,139	2,139	2,139	
Preference Capital	-	-	-	-	-	-	
Reserves & Surplus	64,575	75,948	90,085	100,980	116,727	134,091	
Shareholders Funds	66,714	78,087	92,224	103,119	118,866	136,230	
Minority Interest	832	1,145	1,411	1,735	2,146	2,546	
Total Loans	1,601	944	6,559	7,100	7,400	7,750	
Deferred Tax Liability	8,112	8,738	9,223	10,379	10,679	11,029	
Liability for abandonment cost	15,186	12,932	17,145	17,145	17,145	17,145	
Total Liabilities	92,444	101,846	126,562	139,478	156,235	174,699	
APPLICATION OF FUNDS							
Gross Block	137,145	149,493	169,748	203,470	222,770	244,770	
Less: Acc. Depreciation	83,436	93,825	105,955	124,694	133,787	143,711	
Net Block	53,710	55,668	63,794	78,777	88,983	101,060	
Capital Work-in-Progress	11,030	14,423	24,758	12,300	14,500	14,000	
Goodwill	3,062	2,578	11,404	11,404	11,404	11,404	
Investments	3,583	4,482	3,480	3,480	3,480	3,480	
Current Assets	38,840	47,534	50,715	59,499	65,161	71,664	
Cash	20,676	25,056	22,596	30,433	35,757	41,403	
Loans & Advances	6,736	7,068	13,264	13,264	13,264	13,264	
Other	11,429	15,411	14,855	15,802	16,139	16,997	
Current liabilities	18,296	23,513	28,239	26,633	27,944	27,559	
Net Current Assets	20,545	24,022	22,476	32,867	37,217	44,105	
Mis. Exp. not written off	514	674	651	651	651	651	
Total Assets	92,444	101,846	126,562	139,478	156,235	174,699	

Cash Flow Statement (Consolidated)							(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	
Profit before tax	28,548	31,014	31,093	30,441	38,199	41,089	
Depreciation	7,864	9,078	8,779	18,739	9,093	9,924	
(Incr)/ Decr in Misc Exp	(148)	(180)	1	-	-	-	
Change in Working Capital	2,689	2,415	2,355	(2,515)	723	(1,492)	
Less: Other income	(2,115)	(2,903)	(3,238)	(5,298)	(4,200)	(3,100)	
Direct taxes paid	(8,520)	(10,508)	(10,244)	(9,558)	(12,984)	(13,966)	
Cash Flow from Operations	28,318	28,915	28,746	31,810	30,832	32,454	
(Inc.)/ Dec. in Fixed Assets	(13,566)	(16,814)	(21,639)	(21,264)	(21,500)	(21,500)	
(Inc.)/ Dec. in Investments	(2,212)	(1,260)	902	-	-	-	
(Inc.)/ Dec. in loans and advances	35	(1)	(1,951)	-	-	-	
Other income	1,356	2,078	3,365	5,298	4,200	3,100	
Cash Flow from Investing	(14,387)	(15,996)	(19,323)	(15,967)	(17,300)	(18,400)	
Issue of Equity	703	166	-	-	-	-	
Inc./(Dec.) in loans	(661)	(598)	4,968	541	300	350	
Dividend Paid (Incl. Tax)	(7,695)	(7,822)	(8,103)	(8,547)	(8,508)	(8,758)	
Others	5,291	(285)	(8,748)	-	-	-	
Cash Flow from Financing	(2,361)	(8,538)	(11,883)	(8,006)	(8,208)	(8,408)	
Inc./(Dec.) in Cash	11,570	4,380	(2,460)	7,838	5,324	5,646	
Opening Cash balances	9,106	20,676	25,056	22,596	30,433	35,757	
Closing Cash balances	20,676	25,056	22,596	30,433	35,757	41,403	

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	13.6	12.2	12.2	12.5	9.9	9.2
P/CEPS	9.7	8.4	8.1	6.3	6.5	6.1
P/BV	3.7	3.1	2.6	2.4	2.0	1.8
Dividend yield (%)	2.7	2.8	2.8	3.0	3.1	3.2
EV/Sales	2.7	2.3	2.2	2.1	1.8	1.7
EV/EBITDA	6.2	5.3	5.2	4.9	4.0	3.6
EV/Total Assets	2.4	2.2	1.8	1.6	1.4	1.2
Per Share Data (Rs)						
EPS (Basic)	83.1	92.9	92.5	90.7	114.6	123.3
EPS (fully diluted)	83.1	92.9	92.5	90.7	114.6	123.3
Cash EPS	117	135	140	178	174	184
DPS	31	32	32	34	35	36
Book Value	310	362	428	479	553	634
Dupont Analysis (%)						
EBIT margin	29.5	28.3	26.6	25.3	29.2	30.9
Tax retention ratio	65.7	65.7	64.8	64.8	65.2	65.2
Asset turnover (x)	1.2	1.3	1.2	1.0	1.0	1.0
ROIC (Post-tax)	22.5	24.4	20.1	15.7	19.6	19.8
Cost of Debt (Post Tax)	-	-	-	-	-	-
Leverage (x)	-	-	-	-	-	-
Operating ROE	22.5	24.4	20.1	15.7	19.6	19.8
Returns (%)						
ROCE (Pre-tax)	28.3	28.3	24.5	19.4	23.3	23.3
Angel ROIC (Pre-tax)	40.8	44.9	39.6	29.4	34.1	34.2
ROE	29.0	27.7	23.4	20.0	22.2	20.8
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.6	6.8	6.6	5.5	5.5	5.3
Inventory / Sales (days)	24	25	24	24	22	20
Receivables (days)	21	22	25	27	25	25
Payables (days)	89	99	109	123	107	105
Working capital cycle (ex-cash) (days)	18	(2)	(2)	4	6	6
Solvency ratios (x)						
Net debt to equity	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)
Net debt to EBITDA	(0.5)	(0.6)	(0.4)	(0.5)	(0.5)	(0.6)
Interest Coverage (EBIT/Interest)	58.0	30.6	15.7	46.2	115.9	109.9

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Disclosure of Interest Statement	ONGC
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 5 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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