

RESULTS REVIEW
Oil and Natural Gas Corporation Ltd.
Hold
Share Data

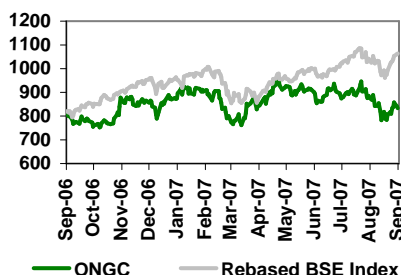
Market Cap	Rs. 1,782.4 bn
Price	833.35
BSE Sensex	15,465.4
Reuters	ONGC.BO
Bloomberg	ONGC IN
Avg. Volume (52 Week)	0.3 mn
52-Week High/Low	Rs. 989.95/683.2
Shares Outstanding	2,138.9 mn

Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	92.6	104.0
+/- (%)	11.5%	12.3%
PER (x)	9.0x	8.0x
EV/ Sales (x)	1.9x	1.7x
EV/ EBITDA (x)	4.4x	3.9x

Shareholding Pattern (%)

Promoters	74
FII's	9
Institutions	5
Public & Others	13

Relative Performance

Uncertainty surrounding subsidy sharing mechanism

In the first quarter, Oil and Natural Gas Corporation Limited (ONGC) reported a 6.3% yoy decline in net sales to Rs. 136,877 mn as a result of rupee appreciation and decline in production. However, lower subsidy discounts to the oil marketing companies (OMC) prevented any further reduction in net sales. The Company's EBITDA declined 2.3% yoy to Rs. 79,222.8 mn negatively impacted by lower sales volume; however EBITDA margins improved by 235 bps to 57.9% due to reduction in subsidy discounts coupled with lower operating expenses. In addition, ONGC reported an 11.9% yoy increase in net profits to Rs. 46,105.3 mn driven by higher other income and reduced depreciation.

With a positive demand outlook, rising average realisation price and growing production, net sales are expected to increase from Rs. 822.5 bn in FY07 to Rs. 1,015.9 bn in FY09E, representing a CAGR of 11.1%. However, further rupee appreciation and lack of clarity over subsidy sharing mechanism remain a concern. We maintain our **Hold** rating on the stock with a 12 month target price of Rs. 943.

Result Highlights

ONGC's net sales for Q1'08 declined 6.3% yoy to Rs. 136,877 mn as a result of 9.3% rupee appreciation and lower production of crude oil and natural gas. However, higher net realisation at USD 50.21 per barrel (Q1'07 USD 45), due to lower subsidy discounts to oil marketing companies, shielded the Company from any further decline in net sales.

Key Figures (Standalone)

Quarterly data	1Q'07	4Q'07	1Q'08	Q-o-Q%	Y-o-Y%
(Figures in Rs mn, except per share data)					
Net Sales	146,027.7	123,969.7	136,877.0	10.4%	(6.3%)
EBITDA	81,094.3	44,144.7	79,222.8	79.5%	(2.3%)
Net Profit	41,189.9	26,816.4	46,105.3	71.9%	11.9%
Margins(%)					
EBITDA	55.5%	35.6%	57.9%		
NPM	28.2%	21.6%	33.7%		
Per Share Data (Rs.)					
Normalised EPS	19.3	12.5	21.6	71.9%	11.9%

Decline in crude production due to processing problems at Nawagam plant

The Company's crude oil production was 6.9 MMT and natural gas production was 6.1 BCM, down 0.7% and 5% yoy respectively. The decline in crude oil production was due to the processing problems at Nawagam Desalter plant which affected the production from Mehsana and Ahmedabad assets.

Increased EBITDA margins due to operating efficiencies and lower subsidy discounts

EBITDA declined 2.3% yoy to Rs. 79,222.8 mn as a result of lower sales volume; however, EBITDA margins recorded an increase of 235 bps yoy to 57.9% driven by reduction in staff costs, statutory levies and purchase costs coupled with declining subsidy discounts.

Higher net profit driven by increase in other income and reduction in recouped costs

ONGC's net profit after tax for Q1'08 increased 11.9% yoy to Rs. 46,105.3 mn due to increase in other income and reduction in recouped costs. Recouped costs declined by 21.4% yoy to Rs. 17.5 bn as a result of change in depreciation rate (27.82% to 100%) for trunk pipeline and onshore flow lines resulting in higher depreciation in Q1'07. Also contributing to the increase was higher other income due to the transfer of Rs. 890 mn surplus from gas pool account. Moreover, during the quarter, ONGC changed its accounting policy of recognising certain employee benefit charges, which increased the net profit before taxes by Rs. 950 mn.

Key Events

Five oil and gas discoveries

- During the quarter, ONGC made five oil and gas discoveries with one discovery each in Mahanadi block, KG basin and Agartala Dome and two discoveries in the Assam Shelf.
- ONGC entered into service contracts for the development of 14 onshore marginal fields which in turn will increase the production by 30 MMT of Oil plus Oil Equivalent Gas (O+OEG) during the XI plan period.
- The Company's board approved the development of B-Cluster Marginal Gas fields (B-46, B-48, B-105 & B-188) located North West of Mumbai High field. The total cost of the project is approximately Rs. 12.9 bn and these fields hold in-place gas volume of 11.298 BCM.

Entry into 14 service contracts to develop onshore fields

*Tie up with Norsk Hydro
Produksjon AS to develop
deepwater blocks*

- ONGC tied up with Norsk Hydro Produksjon AS to develop deepwater block KG-DWN-98/2 in Krishna-Godavari basin. In addition to the development of deepwater blocks, ONGC will also benefit from the technological advancement of its partner.
- ONGC Mittal Energy Ltd. won a gas block in Trinidad and Tobago (T&T), which is estimated to have reserves of 2 tcf.
- ONGC found a new gas reserve at Sundalbari in Tripura, its second discovery in Tripura after Kujaban. The Company is planning to set up a 750-MW gas-based power plant in Tripura.

Key Risks

- Decline in estimated average price realization per boe to negatively impact sales.
- Unexpected changes in subsidy/administered price would negatively affect margins.
- Further appreciation of rupee could have an effect on the Company's realization price.

Outlook

*Net sales expected to rise
however subsidy sharing
pattern still a concern*

We expect the revenues to grow at a CAGR of 11.1% for FY07-09E driven by higher average realization price per barrel coupled with a slight increase in production. Though, ONGC experienced a decline in subsidy discounts during Q1'08 as compared to Q1'07, we still have concerns over the uncertainty surrounding the government's policy on the subsidy sharing mechanism, and thus, expect ONGC to continue sharing the burden of subsidies.

At the current price of Rs. 833.35, the stock is trading at a forward PE of 9.0x FY08E and 8.0x FY09E. We maintain our **Hold** rating on the stock with a 12 month target price of Rs. 943.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	597,054.1	706,423.5	822,529.4	912,726.8	1,015,971.7	11.1%
EBITDA	280,712.8	310,743.7	351,252.6	401,995.2	449,499.6	13.1%
Net Profit	143,390.5	153,976.7	177,696.4	198,044.3	222,478.3	11.9%
Margins(%)						
EBITDA	47.0%	44.0%	42.7%	44.0%	44.2%	
NPM	24.0%	21.8%	21.6%	21.7%	21.9%	
Per Share Data (Rs.)						
Normalised EPS	67.0	72.0	83.1	92.6	104.0	11.9%
PER (x)	8.8x	12.1x	10.0x	9.0x	8.0x	

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