

## ONGC

BLOOMBERG: ONGC IN EQUITY | BSE: 500312 | NSE: ONGC

### Operational performance improves; Maintain BUY

ONGC's Q2FY12 PAT at Rs 86.4bn (+111% QoQ, +60% YoY) beats our estimates of Rs 71bn on a lower subsidy burden of Rs 57bn (vs. Rs 82bn estimated). Key result highlights: (a) A 1.8%/3% QoQ increase in crude/NG production to 6.04mmt/63.3mmcmd. (b) A 20% QoQ decline in recouped costs to Rs 32.7bn due to lower drywell expenses. (c) Incremental cash flows in lieu of royalty paid on Cairn India's (CAIRN) behalf (Rs 25bn), not accounted for in Q2FY12. ONGC expects to maintain its current rate of production over the coming quarters by offsetting the natural decline in gas production by roping in newer fields (BS-13, B-22 etc). We expect 10% earnings CAGR for ONGC over FY11-FY14E. Maintain BUY with a TP of Rs 350.

- ❖ **Q2FY12 production improves; likely growth from JV fields:** ONGC's crude production from own fields increased to 6mmt (+1.8% QoQ). Going forward, the company expects to maintain its current rate of production with a likely increase in production from JV fields, viz. CAIRN, where we expect production to increase to 175kbpd/200kbpd in FY13E/FY14E from ~100kbpd in FY11.
- ❖ **Crude oil realisations improve to US\$ 83.7/bbl:** ONGC's crude oil realisations benefitted from a lower subsidy burden of Rs 57bn which stemmed from (a) lower total under-recoveries at Rs 216bn (Rs 435bn in Q1FY12) due to retail price revision in Jun'11, and (b) lower-than-estimated upstream share at 33%.
- ❖ **Reversal of excess royalty paid on Cairn's behalf not accounted for in Q2:** ONGC has not accounted for the reversal of excess royalty of Rs 25bn (till Q2FY12) paid on CAIRN's behalf this quarter, which would likely be adjusted in the coming quarter. While ONGC would continue to bear the entire royalty burden for the Rajasthan block, cost-recoverability would result in higher revenues from the block.
- ❖ **Maintain BUY; TP Rs 350:** We maintain a BUY on ONGC on expectations of a 10% earnings CAGR and a lower subsidy burden in FY13/14E. We revise our FY12/FY13 by (4)%/(8)% earnings estimates to factor in the rupee depreciation. We also introduce FY14 estimates (rolling TP over to Dec'12).

#### Financial highlights

Year End: 31 Mar	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rs mn)	10,17,546	12,19,293	14,00,246	14,74,207	15,64,919
EBITDA (Rs mn)	4,44,518	5,25,826	5,84,930	6,24,978	6,89,680
Adj. PAT (Rs mn)	1,94,657	2,22,835	2,55,882	2,71,341	3,01,533
Adj. EPS (Rs)	22.8	26.0	29.9	31.7	35.2
Growth (%)	(1.3)	14.5	14.8	6.0	11.1
DPS (Rs)	1.4	1.4	1.5	1.7	1.7
ROIC (%)	15.9	18.3	17.2	15.9	15.9
ROE (%)	20.1	20.6	20.6	19.1	18.8
P/E (x)	14.2	10.6	9.3	8.7	7.9
EV/EBITDA (x)	5.8	4.1	3.7	3.3	3.0
P/BV (x)	2.7	2.1	1.8	1.6	1.4

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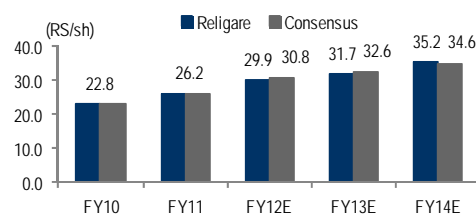
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CMP	Rs 277
Target	Rs 350
Previous	Rs 350
Rating	BUY
Previous	BUY
% Upside / (Downside)	26%
+ Dividend yield	1%
Total return	27%

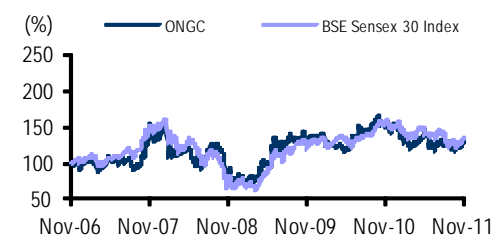
#### Company data

Market cap (Rs mn / US\$ mn)	23,68,176 / 48,194
Outstanding equity shares (mn)	8,555.5
BVPS (Rs)	156
Free float (%)	25.8
52-week high / low (Rs)	345 / 255
2-month avg. daily vol (mn)/ value (US\$ mn)	5 / 25
ADR/GDR premium (%)	n.a.

#### EPS (Religare vs Consensus) comparison



#### Stock performance



## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimate	% Variance
Revenue	2,29,253	2,12,008	8.1
EBITDA	1,44,686	1,24,873	15.9
Adj net income	86,422	70,948	21.8
FDEPS (Rs)	10.1	8.3	21.8

Source: RCML Research

**Fig 2 - Quarterly performance**

(Rs mn)	Q2FY12	Q2FY11	% Chg YoY	Q1FY12	% Chg QoQ
Revenue	2,29,253	1,84,352	24.4	1,64,019	39.8
Expenditure	84,567	71,134	18.9	69,320	22.0
Operating profit	1,44,686	1,13,218	27.8	94,700	52.8
Other income	11,330	9,062	25.0	7,270	55.8
Interest	65	9	617.6	40	62.8
Depreciation	32,782	44,001	-25.5	41,225	-20.5
PBT	1,23,169	78,270	57.4	60,704	102.9
Tax	36,747	24,382	50.7	19,755	86.0
PAT	86,422	53,888	60.4	40,949	111.0
EBITDA margin (%)	63%	61%	2.8	58%	
FDEPS (Rs)	10.1	25.2	-59.9	4.8	111.0

Source: Company, RCML Research

**Fig 3 - Revised estimates**

Key parameters (Rs mn)	FY12E			FY13E		
	Old	New	% Chg	Old	New	% Chg
Revenue	12,20,339	14,00,246	15	13,64,404	14,74,207	8
EBITDA margin (%)	48%	42%	-13	48%	42%	-12
Net profit	2,65,907	2,55,882	-4	2,96,189	2,71,341	-8
FDEPS (Rs)	31	30	-4	35	32	-8

Source: RCML Research

**PAT above estimates due to a lower  
subsidy burden**

**Crude oil realisations improve to  
US\$ 83.7/bbl**

**PAT surges 111% QoQ and +60% YoY**

**Fig 4 - SOTP Valuation**

	USD mn	Rs/share	Comment
Core Business	64,125	345	10x wt avg earnings Dec-12
Exploration upside from KG-98/2 block	1,262	7	6.4 TCF reserves at USD 4/boe
No of Equity Shares (in mn)	8,556		
<b>Value of the company</b>	<b>65,386</b>	<b>352</b>	

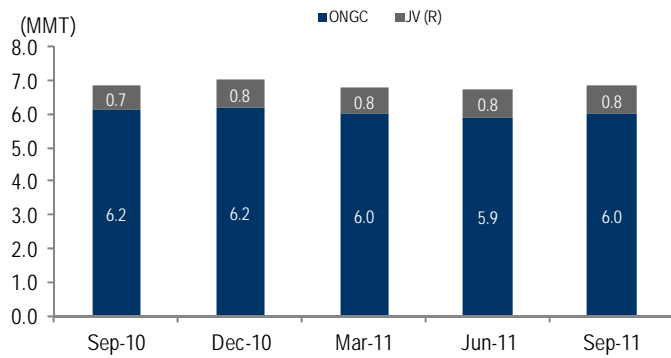
Source: RCML Research

**Fig 5 - Key assumptions**

	Unit	FY11	FY12E	FY13E	FY14E
<b>Crude Oil Production</b>					
- Domestic	MMTPA	27.3	28.5	28.7	29.1
- OVL	MMTPA	6.8	6.8	7.0	7.7
<b>Total</b>	<b>MMTPA</b>	<b>34.0</b>	<b>35.3</b>	<b>35.7</b>	<b>36.7</b>
Crude Oil Sales	MMTPA	29.7	30.7	31.1	32.1
<b>Domestic Crude prices</b>					
- FOB Price (Bonny Light)	USD/bbl	89.41	113	108	108
- Gross realisation (post sub)	USD/bbl	45.4	50.1	58.8	69.3
<b>OVL crude prices</b>					
- Gross realisation	USD/bbl	76.7	99.0	94.5	94.5
<b>Natural Gas Production</b>					
- Domestic	bcm	25.3	26.1	26.9	28.7
- OVL	bcm	2.69	2.67	2.64	2.72
<b>Total</b>	<b>bcm</b>	<b>28.0</b>	<b>28.7</b>	<b>29.5</b>	<b>31.5</b>
Natural Gas Sales	bcm	22.9	23.4	24.0	25.5
<b>Gas Prices</b>					
- Domestic gas prices	USD/mmbtu	2.2	4.2	4.2	4.2
- OVL gas prices	USD/mmbtu	1.87	1.97	2.07	2.17
<b>MRPL</b>					
- Refinery throughput	MMTPA	12.5	12.6	13.5	15
- Gross refining margins (GRMs)	USD/bbl	5.96	6.5	6.5	7
<b>ONGC share in under-recoveries</b>					
- ONGC's share	Rs bn	249	392	291	237
<b>Exchange Rate</b>	<b>USD/INR</b>	<b>45.6</b>	<b>46</b>	<b>46</b>	<b>45</b>

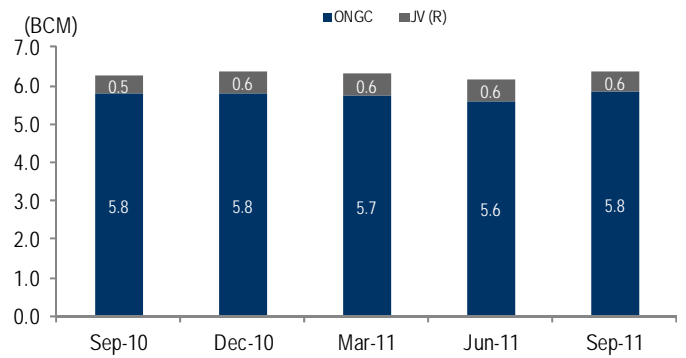
Source: RCML Research, Company

**Fig 6 - Sequential trend in crude oil production**



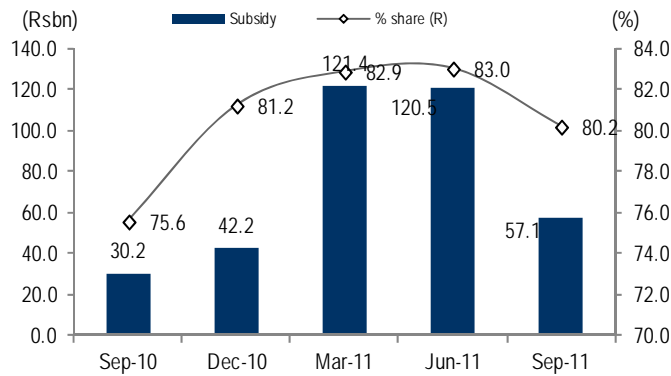
Source: RCML Research, Company

**Fig 7 - Sequential trend in NG production**



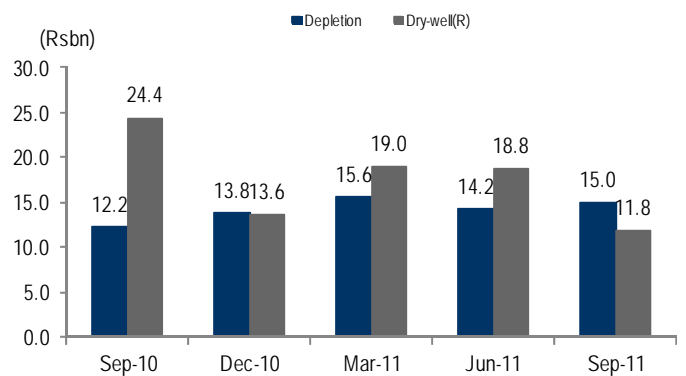
Source: RCML Research, Company

**Fig 8 - Subsidy burden and % share in upstream share**



Source: RCML Research, Company

**Fig 9 - Sequential trend in depletion and drywell expense**



Source: RCML Research, Company

**Profit and Loss statement**

Y/E 31 Mar (Rs mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Total revenue	10,17,546	12,19,293	14,00,246	14,74,207	15,64,919
EBITDA	4,44,518	5,25,826	5,84,930	6,24,978	6,89,680
EBIT	2,57,330	3,19,542	3,60,469	3,77,809	4,22,616
Interest	(5,022)	(4,374)	(7,017)	(8,944)	(10,748)
Other income/(Expense)	52,727	26,271	49,341	53,078	57,141
Exceptional items	0	0	0	0	0
EBT	3,05,035	3,41,439	4,02,793	4,21,944	4,69,010
Income taxes	(1,07,138)	(1,14,913)	(1,43,399)	(1,47,648)	(1,67,528)
Extraordinary items	0	0	0	0	0
Min int./Inc. from associates	(3,240)	(3,690)	(3,512)	(2,955)	52
<b>Reported net profit</b>	<b>1,94,657</b>	<b>2,22,835</b>	<b>2,55,882</b>	<b>2,71,341</b>	<b>3,01,533</b>
Adjustments	0	0	0	0	0
Adjusted net profit	1,94,657	2,22,835	2,55,882	2,71,341	3,01,533

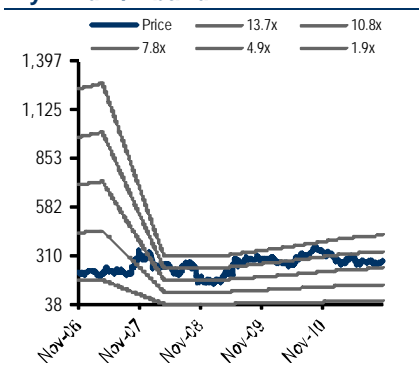
**Balance sheet**

Y/E 31 Mar (Rs mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Accounts payable	2,26,819	3,40,366	2,09,448	2,18,486	2,28,819
Other current liabilities	0	0	0	0	0
Provisions	75,158	50,880	95,779	1,05,357	1,10,567
Debt funds	62,669	62,912	68,936	74,660	80,097
Other liabilities	2,94,100	3,30,287	3,71,661	4,17,886	4,29,989
Equity capital	21,389	42,778	42,778	42,778	42,778
Reserves & surplus	9,92,676	11,10,495	12,92,712	14,59,647	16,56,776
Shareholder's funds	10,14,065	11,53,273	13,35,490	15,02,425	16,99,554
<b>Total liabilities</b>	<b>16,72,811</b>	<b>19,37,718</b>	<b>20,81,314</b>	<b>23,18,814</b>	<b>25,49,025</b>
Cash and cash eq	2,23,858	2,86,883	2,56,929	3,27,225	3,59,274
Accounts receivable	71,424	97,724	1,07,496	1,18,246	1,30,070
Inventories	82,400	85,676	1,03,758	1,06,114	1,13,785
Other current assets	1,27,983	1,19,274	1,26,805	1,34,826	1,43,369
Investments	51,593	33,561	49,070	49,151	49,232
Net fixed assets	7,55,426	8,40,547	9,29,626	10,39,864	11,76,052
CWIP	2,56,164	3,76,165	4,09,502	4,45,015	4,78,616
Intangible assets	0	0	0	0	0
Deferred tax assets, net	165	0	0	0	0
Other assets	1,03,799	97,889	98,128	98,374	98,627
<b>Total assets</b>	<b>16,72,811</b>	<b>19,37,718</b>	<b>20,81,314</b>	<b>23,18,814</b>	<b>25,49,025</b>

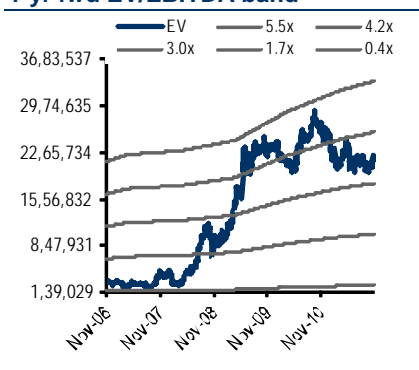
**Cash flow statement**

Y/E 31 Mar (Rs mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Net income + Depreciation	3,81,845	4,29,119	4,80,342	5,18,509	5,68,597
Interest expenses	5,022	4,374	7,017	8,944	10,748
Non-cash adjustments	0	0	0	0	0
Changes in working capital	18,972	68,402	(1,21,405)	(2,510)	(12,496)
Other operating cash flow	35,717	41,847	41,262	46,090	11,969
Cash flow from operations	4,41,555	5,43,743	4,07,216	5,71,033	5,78,818
Capital expenditure	(3,13,261)	(4,11,406)	(3,46,877)	(3,92,919)	(4,36,853)
Change in investments	(16,790)	18,032	(15,509)	(81)	(81)
Other investing cash flow	0	0	0	0	0
Cash flow from investing	(3,30,051)	(3,93,374)	(3,62,385)	(3,93,000)	(4,36,934)
Issue of equity	2,300	(1,152)	20,818	0	0
Issue/repay debt	(2,922)	243	6,024	5,723	5,437
Interest expenses	(5,022)	(4,374)	(7,017)	(8,944)	(10,748)
Dividends paid	(82,398)	(87,217)	(94,482)	(1,04,407)	(1,04,407)
Other financing cash flow	(25,558)	5,156	(127)	(110)	(117)
Cash flow from financing	(1,13,601)	(87,345)	(74,785)	(1,07,737)	(1,09,835)
Change in cash & cash eq	(2,097)	63,024	(29,954)	70,296	32,049
Closing cash & cash eq	2,23,858	2,86,883	2,56,929	3,27,225	3,59,274

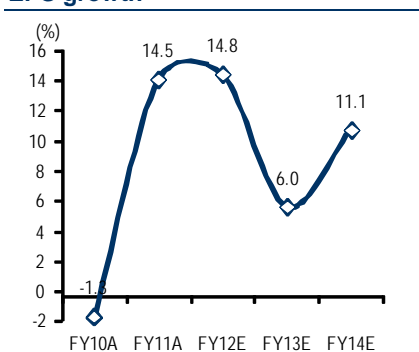
## 1-yr fwd P/E band



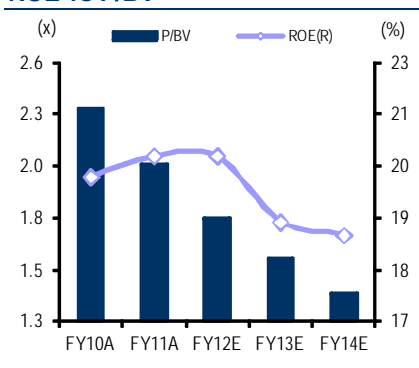
## 1-yr fwd EV/EBITDA band



## EPS growth



## ROE vs P/BV



## Per share data

Y/E 31 Mar (Rs)	FY10A	FY11A	FY12E	FY13E	FY14E
Reported EPS	22.8	26.0	29.9	31.7	35.2
Adjusted EPS	22.8	26.0	29.9	31.7	35.2
DPS	1.4	1.4	1.5	1.7	1.7
BVPS	118.5	134.8	156.1	175.6	198.6

## Valuation ratios

Y/E 31 Mar (x)	FY10A	FY11A	FY12E	FY13E	FY14E
EV/Sales	2.5	1.7	1.5	1.4	1.3
EV/EBITDA	5.8	4.1	3.7	3.3	3.0
P/E	14.2	10.6	9.3	8.7	7.9
P/BV	2.7	2.1	1.8	1.6	1.4

## Financial ratios

Y/E 31 Mar	FY10A	FY11A	FY12E	FY13E	FY14E
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	43.7	43.1	41.8	42.4	44.1
EBIT margin	25.3	26.2	25.7	25.6	27.0
Net profit margin	19.1	18.3	18.3	18.4	19.3
ROE	20.1	20.6	20.6	19.1	18.8
ROCE	15.9	18.2	17.4	16.2	15.9
<b>Working Capital &amp; Liquidity ratios</b>					
Receivables (days)	26	25	27	28	29
Inventory (days)	80	76	66	70	72
Payables (days)	139	149	123	92	93
Current ratio (x)	1.7	1.5	1.9	2.1	2.2
Quick ratio (x)	1.4	1.3	1.6	1.8	1.9
<b>Turnover &amp; Leverage ratios (x)</b>					
Gross asset turnover	0.8	0.8	0.8	0.8	0.8
Total asset turnover	0.6	0.7	0.7	0.7	0.6
Interest coverage ratio	51.2	73.0	51.4	42.2	39.3
Adjusted debt/equity	0.1	0.1	0.1	0.0	0.0

## Quarterly trend

Particulars	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Revenue (Rs mn)	1,84,352	1,89,062	1,61,079	1,64,019	2,29,253
YoY growth (%)	21.4	21.9	0.7	18.7	24.4
QoQ growth (%)	33.4	2.6	(14.8)	1.8	39.8
EBITDA (Rs mn)	1,13,218	1,16,337	79,722	94,700	1,44,686
EBITDA margin (%)	61.4	61.5	49.5	57.7	63.1
Adj PAT (Rs mn)	53,888	58,117	27,908	40,949	86,422
YoY growth (%)	5.9	90.3	(26.1)	11.8	60.4
QoQ growth (%)	47.2	7.8	(52.0)	46.7	111.0

## DuPont analysis

(%)	FY10A	FY11A	FY12E	FY13E	FY14E
Tax burden (Net income/PBT)	63.8	65.3	63.5	64.3	64.3
Interest burden (PBT/EBIT)	118.5	106.9	111.7	111.7	111.0
EBIT margin (EBIT/Revenue)	25.3	26.2	25.7	25.6	27.0
Asset turnover (Revenue/Avg TA)	63.2	67.5	69.7	67.0	64.3
Leverage (Avg TA/Avg equity)	166.3	166.6	161.5	155.0	152.0
Return on equity	20.1	20.6	20.6	19.1	18.8

## Company profile

ONGC specialises in the exploration and production of crude oil and gas. The company has joint ventures in oil fields in Vietnam, Norway, Egypt, Tunisia, Iran and Australia. The group's other activities include deep sea exploration on the east and west coasts of India, and the exploration of coal bed methane.

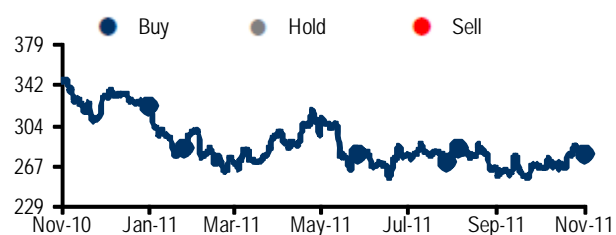
## Shareholding pattern

(%)	Mar-2011	Jun-2011	Sep-2011
Promoters	74.1	74.1	74.1
FIs	4.5	4.8	5.2
Banks and FIs	7.6	7.4	7.0
Public	13.8	13.7	13.7

## Recommendation history

Date	Event	Reco price	Tgt price	Reco
22-Sep-10	Sector Report	351	378	Hold
29-Oct-10	Results Review	326	378	Buy
04-Jan-11	Strategy	322	368	Buy
28-Jan-11	Results Review	283	350	Buy
30-May-11	Results Review	278	350	Buy
30-Jul-11	Results Review	269	350	Buy
08-Aug-11	Alert	283	350	Buy
04-Nov-11	Results Review	277	350	Buy

## Stock performance



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### Recommendation Interpretation (Recommendation structure changed with effect from March 1, 2009)

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Expected absolute returns are based on the share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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As of 1 November 2011, out of 328 rated stocks in the RCM coverage universe, 215 have BUY ratings, 69 are rated HOLD and 44 are rated SELL. During the previous quarter, Religare Capital Markets Plc in the UK has published 102 independent research notes, 43 of which contained research recommendations, none of which related to corporate broking clients of the firm. The 43 recommendations were broken down into 31 buys, 4 sells, and 8 hold recommendations.

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