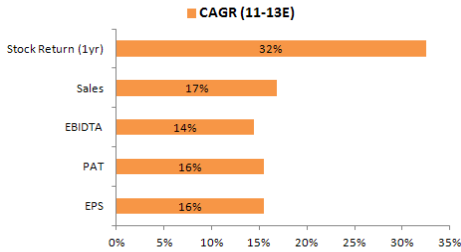




2Q FY12 Result Review

Industry Oil & Gas

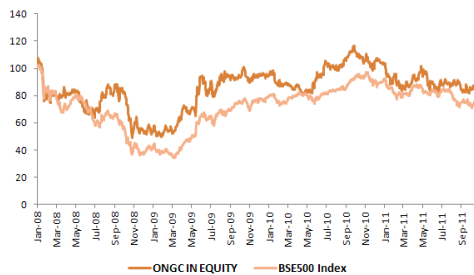


Price	277
Target Price	367
Last call	BUY (29-10-10 at ₹ 381)
Expected share price return	32.49%
Expected dividend yield	3.97%
Expected total return	36.46%

Market Data

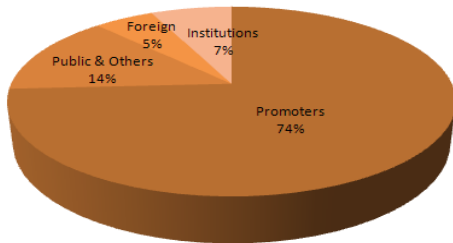
Market Cap.	₹ 2,447bn/ US\$ 53.5bn
Share Cap. (mn)	85,555
52 Wk High/Low	349/227
Avg. Vol. (Weekly)	2452310

(Price Performance (RIC: ONGC.BO, BB: ONGC IN))



Shareholding Pattern
(As on 30th Sept 2011)

(%)



Financials (₹ mn)	FY11	FY12E	FY13E
Net Sales	1219293	1570278	1664877
EBIDTA	527550	647883	691254
PBT	343189	459477	479428
PAT	224555	289974	299577
EPS (Rs.)	26.2	33.9	35.0
EBIDTA Margin (%)	43.27%	41.26%	41.52%
PAT margin (%)	18.42%	18.47%	17.99%
Price/Earnings (x)	10.6	8.2	7.9
EV/EBIDTA	4.1	3.5	3.3
ROE (%)	14%	15%	14%
ROCE (%)	16%	18%	17%

ONGC (ONGC IN)

November 8, 2011

Robust profit growth in 2Q

BUY (CMP: ₹277)

Mkt Cap ₹2,447bn; USD53.5bn

ONGC reported its highest ever quarterly profit of ₹86bn in 2Q FY12, led by higher net realizations and lower depreciation. Although we do not rule out a higher upstream subsidy share going forward as in 4Q FY11, this may not adversely impact our EPS estimates as we currently build in 44% upstream share v/s 33% in 1H. Reimbursement of royalty on Cairn's share of Rajasthan crude is an added positive. At just 8.2x FY12E EPS, ONGC is inexpensive. We maintain Buy on the stock.

2Q FY12 PAT boosted by higher net realizations, lower depreciation

ONGC reported 60% YoY growth in 2Q net profit to ₹86.4 bn, as EBITDA grew by 28% YoY. The growth in PAT was mainly due to higher realizations and lower depreciation expense (down 25% YoY), driven by lower dry well write offs in 2Q FY12. The management indicated in the post results call that dry well write-offs are likely to trend higher in the quarters to come.

On the operating front, EBITDA growth was mainly led by higher price realizations at US\$ 83.7/barrel (up 33% YoY).

Lower-than-expected subsidy a positive surprise; need for caution though

ONGC's results positively surprised both us and the street mainly on account of lower-than-expected subsidy in 2Q. This was mainly a result of lower-than-anticipated subsidy share of 33% v/s 40+% assumed by us and the street. Besides, lower-than-expected dry well write off due to lower wells drilled in 2Q also contributed to the positive surprise. However, we do not rule out a higher upstream share going forward (especially in 4Q), as seen in 4Q FY11. Besides, dry well write off may too increase going forward as guided by the management – a result of higher wells drilled in 2H

Maintain BUY as positive triggers play themselves out in rest of FY12E

We have assumed a higher share of upstream subsidy in FY12E – 44% v/s 33% in 1H FY12 and 37% in FY11. Upstream subsidy share in FY12E is anybody's guess as things stand now; however, given the negative surprise in 4Q FY11 on higher subsidy share and the government's challenging fiscal situation, we would not be surprised if the government indeed hikes the upstream share in 4Q FY12. We have conservatively assumed a higher share of 44%. Thus, any share lower-than-our assumption could be a positive, clarity on which is likely only in 4Q FY12. Other positive triggers include reimbursement of Cairn India's share of royalty on Rajasthan crude – ₹25.1bn pre-tax in 1H (₹17.6bn post tax). ONGC's CMP discounts US\$46/bbl effective long-term Brent price v/s US\$69/bbl assumed by us in our DCF value of ₹367/share. Further, the CMP does not even factor in its 2P reserves entirely – CMP factors in ₹231/share of 2P reserves valuation v/s ₹321/share valued by us. At just 8.2x FY12E EPS (v/s historical avg of ~10x), ONGC's valuations are very compelling. We reiterate "BUY" on the stock.

Sudarshan Narasimhan
sudarshan@systematixshares.com
(+91 22 3029 8293)

Table 1: ONGC 2Q FY12 results (standalone)

₹-million	2Q FY12A	2Q FY11	% Chg	1H FY12E	1H FY11	% Chg
Net sales	229,254	184,303	24.4	393,273	322,533	21.9
Total expenditure	84,567	71,085	19.0	153,887	127,383	20.8
EBDITA	144,686	113,218	27.8	239,386	195,150	22.7
EBDITA margin	63.1%	61.4%		60.9%	60.5%	
Interest	65	9	617.6	105	37	187.2
Depreciation	32,782	44,001	-25.5	72,782	75,143	-3.1
Other Income	11,330	9,062	25.0	18,599	13,134	41.6
PBT	123,169	78,270	57.4	185,098	133,104	39.1
Tax	36,747	24,382	50.7	56,502	42,605	32.6
Recurring PAT	86,422	53,888	60.4	128,596	90,499	42.1
Add :Extra-ordinary items	0	0		0	0	
PAT	86,422	53,888	60.4	128,596	90,499	42.1
Recurring EPS (₹/sh)	10.1	6.3	60.4	15.0	10.6	42.1
Reported EPS (₹/sh)	40.4	25.2	60.4	60.1	42.3	42.1

Source: Company and Systematix Institutional Research

Table 2: ONGC 2Q FY12 results (consolidated)

₹-million	2Q FY12A	2Q FY11	% Chg	1H FY12E	1H FY11	% Chg
ONGC Standalone PAT	86,422	53,888	60%	128,596	90,499	42%
Share in MRPL PAT	1,228	170	621%	1,399	2,201	-36%
ONGC Consolidated PAT ex OVL	87,651	54,058	62%	129,995	92,700	40%
EPS	10.24	6.32	62%	15.19	10.84	40%

Source: Company and Systematix Institutional Research

Table 3: ONGC's gross and net oil price realization

₹-million	2Q FY12A	2Q FY11	% Chg	1H FY12E	1H FY11	% Chg
Gross Realization (US\$/bbl)	116.94	79.21	48%	119.06	79.99	49%
Subsidy (US\$/bbl)	33.24	16.46	102%	52.54	24.26	117%
Net Realization (US\$/bbl)	83.70	62.75	33%	66.52	55.73	19%

Source: Company and Systematix Institutional Research

Table 4: Break-up of DD&A cost

₹mn	2Q FY12	2Q FY11	YoY change	1H FY12E	1H FY11	% Chg
Depletion	1,500	1,221	23%	2,924	2,498	17%
Depreciation	285	499	-43%	676	861	-21%
Dry wells	1,183	2,441	-52%	3,062	3,318	-8%
Survey	294	237	24%	721	830	-13%
Impairment	7	(3)	-333%	7	(1)	-800%
Prior period	9	4	125%	10	7	43%
Total	3,278	4,399		7,400	7,513	

Source: Company and Systematix Institutional Research

Table 5: Valuation of ONGC

	mmboe	USD/boe	USDm	₹/share
2P reserves	9,456	6.5	61,029	321
Net cash			4,943	26
Value of investments			3,802	20
			69,774	367

Source: ONGC, Systematix research

Financials (Consolidated)

Table 6: ONGC's Profit & Loss Statement

₹-million	FY10	FY11A	FY12E	FY13E
Revenue	1,017,605	1,219,293	1,570,278	1,664,877
Total expenditure	(573,211)	(691,743)	(922,395)	(973,623)
EBITDA	444,393	527,550	647,883	691,254
Depreciation	(187,391)	(206,284)	(211,472)	(237,791)
Interest	(5,564)	(4,374)	(5,103)	(5,328)
Other Income	53,054	26,301	28,168	31,292
Extra-ordinary/prior period items	0	(4)	0	0
PBT	304,492	343,189	459,477	479,428
Tax	(107,138)	(114,913)	(166,892)	(176,126)
Reported Profit	197,354	228,276	292,585	303,302
Minority interest	(3,319)	(3,720)	(2,610)	(3,725)
Consolidated reported profit	194,035	224,555	289,974	299,577
Consolidated recurring profit	194,035	224,558	289,974	299,577
Outstanding shares	8,555	8,555	8,555	8,555
Reported EPS	22.7	26.2	33.9	35.0
y-o-y change	-2%	16%	29%	3%
Recurring EPS	22.7	26.2	33.9	35.0
y-o-y change	-2%	16%	29%	3%
EBITDA Margin	43.7%	43.3%	41.3%	41.5%

Source: Company and Systematix Institutional Research

Table 7: ONGC's Cash flows

₹-million	FY10	FY11A	FY12E	FY13E
Net profit	197,354	228,276	292,585	303,302
Add: deferred tax	10,681	8,614	-1,373	154
Add: Depreciation	163,861	184,519	187,531	208,849
	371,896	421,408	478,743	512,305
Less: Change in working capital	-18,956	-68,657	169,762	4,022
Less: dividend	79,802	87,586	110,108	120,118
	311,051	402,479	198,873	388,165
Less change in investment	-1,864	-23,489	-4,528	50,000
Less: Capex	315,245	387,084	308,026	369,011
	-2,330	38,885	-104,625	-30,846
Add: change in equity	0	0	0	0
Less: repayment of debt	-217	-24,156	-39,340	-9,999
Change in cash balance	-2,113	63,041	-65,285	-20,847

Source: Company and Systematix Institutional Research

Table 8: ONGC's Balance Sheet

₹-million	FY10	FY11A	FY12E	FY13E
Assets				
Gross fixed assets	866,131	1,000,436	1,094,724	1,179,520
Less: accumulated depreciation	624,335	661,965	706,408	752,701
Net fixed assets	241,796	338,472	388,315	426,819
Capital work in progress	178,005	203,965	165,082	141,082
Net fixed assets and Capital WIP	419,801	542,437	553,398	567,901
Producing properties	511,665	571,896	636,234	771,187
Exploratory wells in progress	80,125	102,379	152,053	164,211
Investments	51,593	33,561	34,100	84,100
Cash and bank balance	223,842	286,883	221,598	200,750
Current Assets				
Inventories	46,786	41,190	46,825	48,962
Sundry debtors	60,587	68,460	95,556	98,548
Other current assets	269,834	282,713	291,321	299,910
	377,207	392,363	433,703	447,420
Less: Current liabilities				
Sundry creditors	57,998	65,261	78,929	82,296
Dividend provision	35,290	37,430	47,055	51,332
Other liabilities	208,689	288,555	141,909	143,958
	301,977	391,246	267,892	277,587
Net current assets	75,230	1,117	165,811	169,833
Total assets	1,362,257	1,538,273	1,763,193	1,957,983
Liabilities				
Borrowings	62,669	62,912	102,252	112,251
Liability for abandonment costs	174,590	198,504	198,504	198,504
Deferred tax liability	102,912	111,526	110,154	110,307
Minority interest	16,432	20,018	22,628	26,353
Equity share capital	21,389	42,778	42,778	42,778
Reserves and surplus	984,264	1,102,534	1,286,653	1,466,113
	1,005,653	1,145,312	1,329,431	1,508,890
Total liabilities	1,362,257	1,538,272	1,763,193	1,957,983

Source: Company and Systematix Institutional Research

Table 9: ONGC's Valuations

₹-million	FY10	FY11A	FY12E	FY13E
Recurring EPS	22.7	26.2	33.9	35.0
PE	12.2	10.6	8.2	7.9
DPS	8.3	8.8	11.0	12.0
Yield	3.0%	3.2%	4.0%	4.3%
Book Value	118	134	155	176
P/BV	2.4	2.1	1.8	1.6
EV/EBITDA	5.0	4.1	3.5	3.3
ROCE	15.6%	15.7%	18.3%	17.1%
ROE	13.3%	13.6%	15.2%	13.8%
Gross debt equity ratio	6%	5%	8%	7%
Net Debt equity ratio	-16%	-20%	-9%	-6%

Source: Company and Systematix Institutional Research

For any queries contact us at: Institutional Team

N. Subramaniam	Sr. VP & Head – Sales & Sales Trading	+91- 22-3029 8285	nsubramaniam@systematixshares.com
----------------	---------------------------------------	-------------------	-----------------------------------

Equity Sales

Mamta Singh	AVP– Sales	+91-22-3029 8092	mamtasingh@systematixshares.com
Ridhim Thapar	AVP– Sales	+91-22-3029 8265	ridhimt@systematixshares.com

Sales Trading / Dealing

Priya Kartik	AVP - Sales Trading	+ 91-22-3029 8091	priyakartik@systematixshares.com
Sachin Parekh	Sr. Manager	+ 91-22-3029 8291	sachinp@systematixshares.com
Jigar Kamdar	Sales Trader	+ 91-22-3029 8181	jigarkamdar@systematixshares.com
Vinod Bhuwad	Sales Trader	+ 91-22-3029 8267	vinodbhuwad@systematixshares.com
Abhishek Karande	Technical Analyst	+ 91-22-3029 8261	abhishekk@systematixshares.com
Nayan Narnoli	Derivatives Dealer	+ 91-22-3029 8180	nayan@systematixshares.com
Monish Lotia	Derivatives Dealer	+ 91-22-3029 8252	monishlotia@systematixshares.com

Equity Research

Telephone: + 91-22- 3029 8000

RESEARCH ANALYST	SECTOR ALLOCATION	DIRECT Nos.	E-mail
Sudarshan Narasimhan	Sr. VP & Head of Research –Oil & Gas, Petrochemicals	+ 91-22-3029 8293	sudarshan@systematixshares.com
Vinod Chari	VP - Capital Goods	+ 91-22-3029 8263	vinodchari@systematixshares.com
Surya Narayan Patra	AVP - Pharma	+ 91-22-3029 8186	suryapatra@systematixshares.com
Eric Martins	AVP – Metals & Mining, Pipes	+ 91-22-3029 8253	eric@systematixshares.com
Shreegopal Jaju	AVP – Capital Goods	+ 91-22-3029 8187	gopaljaju@systematixshares.com
Jyoti Khatri	AVP – Banking	+ 91-22-3029 8296	jyotikhatri@systematixshares.com
Anurag Purohit	AVP – IT	+ 91-22-3029 8258	anuragp@systematixshares.com
Binod Modi	Sr. Analyst – Cement & Construction	+ 91-22-3029 8264	binodmodi@systematixshares.com
Rohit Jain	Analyst - Real Estate	+ 91-22-3029 8269	rohitj@systematixshares.com
Rahul Agarwal	Analyst	+ 91-22-3029 8260	rahulagarwal@systematixshares.com
Prateek Khandelwal	Associate	+ 91-22-3029 8259	prateekk@systematixshares.com

Stock Ratings

BUY (B)	The stock's total return is expected to exceed 20% over the next 12 months.
ACCUMULATE (A)	The stock's total return is expected to be within 10-20% over the next 12 months.
HOLD (H)	The stock's total return is expected to be within 0-10% over the next 12 months.
SELL (S)	The stock's total return is expected to give negative returns over the next 12 months.
NOT RATED (NR)	The analyst has no recommendation on the stock under review.

Industry Views

ATTRACTIVE (AT)	Fundamentals/Valuations of the sector are expected to be attractive over the next 12-18 months.
NEUTRAL (NL)	Fundamentals/Valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.
CAUTIOUS (CS)	Fundamentals/Valuations of the sector are expected to deteriorate over the next 12-18 months.

ANALYST DISCLAIMER

This document has been prepared by Systematix Shares & Stocks (I) Ltd. This report is the personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

We, at Systematix Shares & Stocks (I) Ltd., have prepared this report based on the data we consider reliable, but we do not vouch it to be accurate or complete, and it may not be relied upon as such. Systematix Shares & Stocks (I) Ltd does not in any way be responsible for any loss or damage that may arise to any person due to the content in the report. Each recipient of this document should make an independent valuation of their own in the securities referred to in this report.

Besides, the data in this document is subject to change without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use of the report and the content within, is prohibited.

Disclosure of Interest

1. The analysts who have prepared the report have in no way received or are expected to receive any compensation from the subject company.
2. The analysts do not hold any position in the subject company's stock, as on the date of release.
3. Neither the company nor an affiliate company of Systematix Shares & Stocks (I) Ltd. has received a mandate from the subject company.
4. Systematix Shares & Stocks (I) Ltd., or its affiliates do not hold any paid up capital in the company

SYSTEMATIX SHARES & STOCKS (I) LTD.

Head Office J. K. Somani Building, 2nd Floor, British Hotel Lane,
Fort, Mumbai, Pin: 400001, Tel: +91 22 66198000, Fax: +91 22 66198029

Registered Office EGA Trade Center, 4th Floor, 809-, Poonamalle High Road,
Kilpauk, Chennai, Pin: 600010Tel: +91 44 26612184/ 87/ 88Fax: +91 44 26612190