

Key data **26 June 2008**

Sector	Oil & Gas
Market Cap	Rs1850.9bn/US\$43.3bn
52 Wk H/L (Rs)	1386.9/768
BSE Avg. daily vol. (6 m)	2,255,948

BSE Code	500312
NSE Code	ONGC
Bloomberg	ONGC IN
Reuters	ONGC.BO

Sensex	14,220
Nifty	4,253

Shareholding pattern (%)

	31-Dec-07	31-Mar-08
FII's	8.1	7.7
MFs and institutions	5.0	5.4
Promoters	74.1	74.1
Others	12.8	12.8

Absolute returns (%)

	1mth	3mth	12mth
ONGC	(3.3)	(18.5)	(8.2)
Sensex	(13.0)	(11.6)	(1.9)
BSE Oil	(13.0)	(8.0)	22.9

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Oil and Natural Gas Ltd

Hold
Current Price: Rs.864
Target price: Rs 992

High depreciation and subsidy lead to disappointing results

Figure 1: Actual vs Religare Estimates

	Q4 FY08	Q4 FY08E	Difference
Net Sales	156261	152896	-2.2%
EBITDA	57767	70609	-18%
EBITDA margins (%)	50%	52%	-200 bps
Adj. PAT	26271	42776	-38.5%
Adj. PAT margins (%)	14.9%	28.00%	-1310 bps

Source: Religare Institutional Equity Research

Financial Highlights

- In Q4 FY08, ONGC reported net sales of Rs. 156.2 bn, an increase of 26% Y-o-Y, against our estimate of Rs.152.8 bn.
- EBITDA increased by 30.9% to Rs 57.7 bn vs our estimate of Rs 70 bn. On a sequential basis, EBITDA declined by 28% mainly on account of a higher subsidy burden, and provision for employee pay revision.
- Depreciation increased by 34% Y-o-Y and 74% sequentially as the company depreciated trunk pipelines at 100% depreciation rate.
- Adj. PAT saw a decline of 2% Y-o-Y to Rs 26.2 bn as compared to our estimate of Rs 42.7 bn. PAT margins stood at 14.9%.

Valuations and Recommendation

ONGC is trading at 8x FY09E and 7.5x its FY10E earnings. We value ONGC at 9x one year forward earnings, giving us a target price of Rs 992. The stock has fallen sharply in the recent past, we upgrade ONGC from Reduce to Hold.

Figure 2: Quarterly Performance

	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	146,028	140,686	155,645	123,970	136,877	154,139	151,208	156,261	566,328	598,485
Change %	34.3	11.0	24.8	4.2	-6.3	9.6	-2.9	26.0	18.2	5.7
EBITDA	81094	70399	89093	44145	79223	84153	80318	57767	327162	350914
EBITDA margin (%)	55.53	50.04	57.24	35.61	57.88	54.60	53.12	36.97	57.77	58.63
Change (%)	32.83	-1.61	21.03	-34.36	-2.31	19.54	-9.85	30.86	4.12	5.88
Depreciation	22309	18473	25576	28637	17546	19871	22118	38445	94994	97979
Other Income	4200	9397	7045	21790	8388	12100	8630	20337	42431	49455
Interest exp/(inc)	33	41	77	65	48	305	114	123	215	590
PBT	62952	61282	70485	37233	70018	76076	66716	39536	231953	252345
PBT margin (%)	43.11	43.56	45.29	30.03	51.15	49.36	44.12	25.30	40.96	42.16
PBT growth (%)	24.66	0.84	19.38	-22.53	11.22	24.14	-5.35	-5.83	8.39	8.79
Extraordinary exp/(Inc)	0	0	0	-4750	0	0	0	0	0	0
Tax	21763	19542	23802	15166	23913	25102	23051	13265	80273	85329
Effective tax rate (%)	34.57	31.89	33.77	40.73	34.15	33.00	34.55	33.55	34.61	33.81
PAT reported	41190	41740	46683	26817	46105	50974	43665	26271	151680	167016
Adjusted PAT *	41190	41740	46683	22067	46105	50974	43665	26271	151680	167016
Adj PAT margin (%)	28.2	29.7	30.0	17.8	33.7	33.1	28.9	16.8	26.8	27.9
Change (%)	24.1	0.9	20.1	-9.8	11.9	22.1	-6.5	19.1	13.4	6.8
Equity Capital (Rs mn)	21388.87	21388.87	21388.87	21388.87	21388.87	21388.87	21388.87	21388.87	21388.87	21388.87
Adj EPS	19.26	19.51	21.83	10.32	21.56	23.83	20.42	12.28	70.92	78.09

Source: Religare Institutional Equity Research, Bloomberg, * Excluding extraordinary

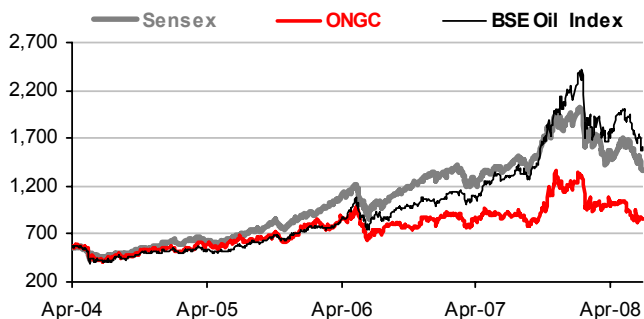
Other business highlights

- Crude production for the quarter was at 6.95 MMT (including production from JVs), which is at the same levels as last quarter. For the past few quarters, ONGC has seen stagnant production from its ageing fields.
- The subsidy burden for the quarter was Rs 84.7 bn, against Rs 46.6 bn in Q4 FY07, and Rs 60.8 bn in Q3 FY08.

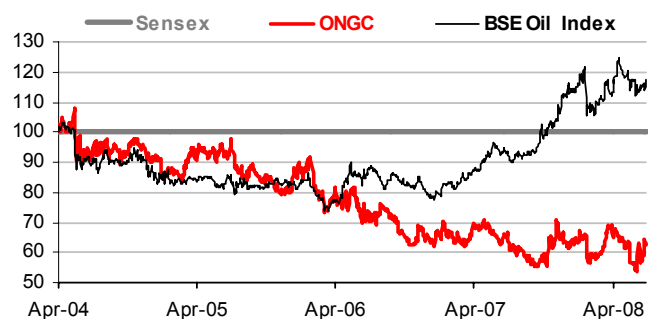
Stock performance

ONGC

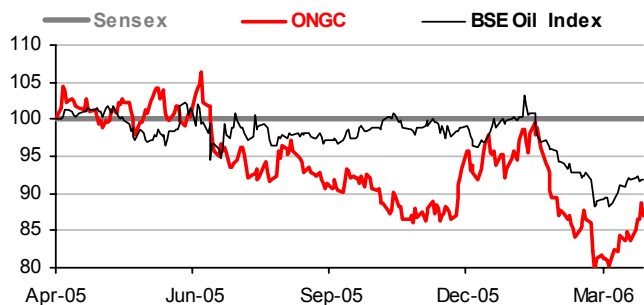
Absolute Perf. From Apr 04



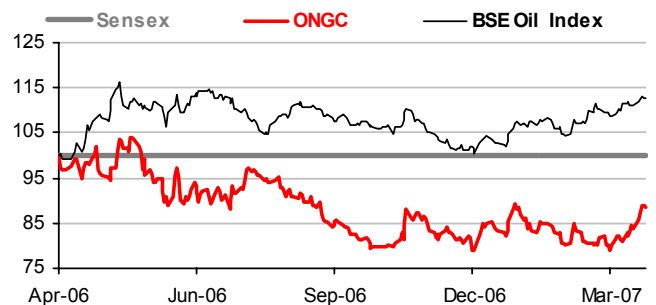
Relative Perf. From Apr 04



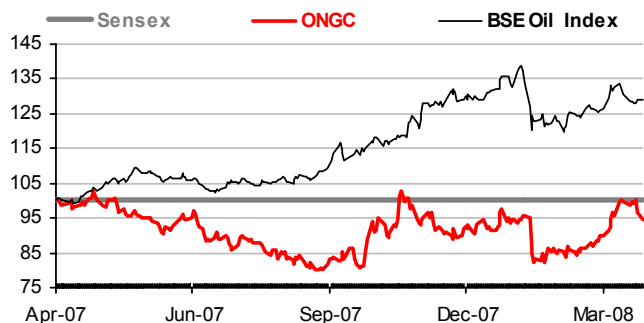
Relative Perf. From Apr 05 to Mar 06



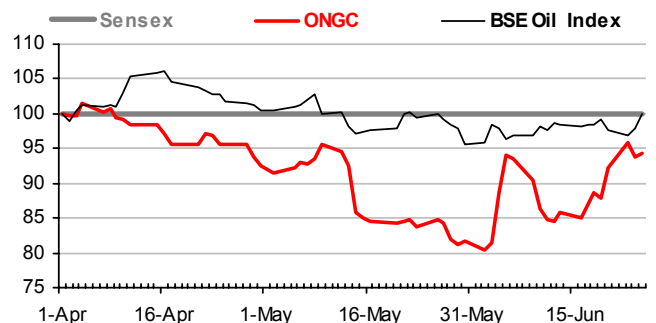
Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07 to Mar 08



Relative Perf. From Apr 08

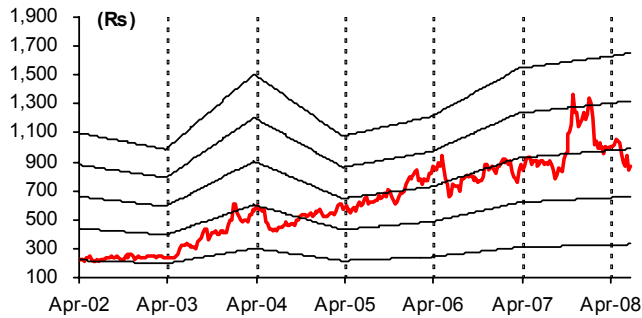


Source: Bloomberg, Religare Institutional Equity Research

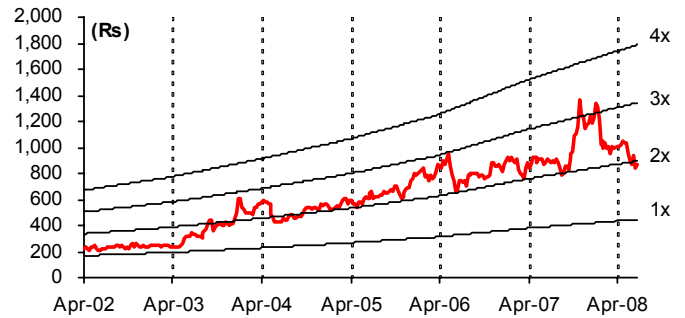
12 month forward rolling band charts

ONGC

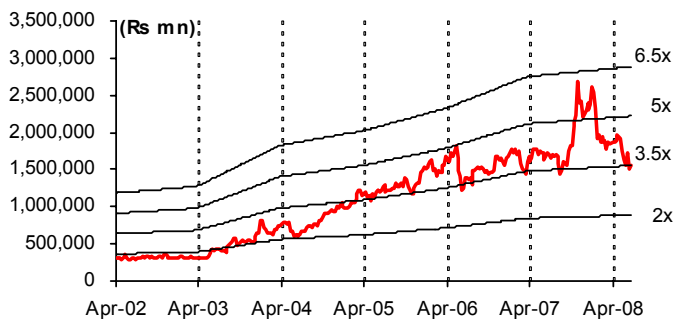
P/E Band



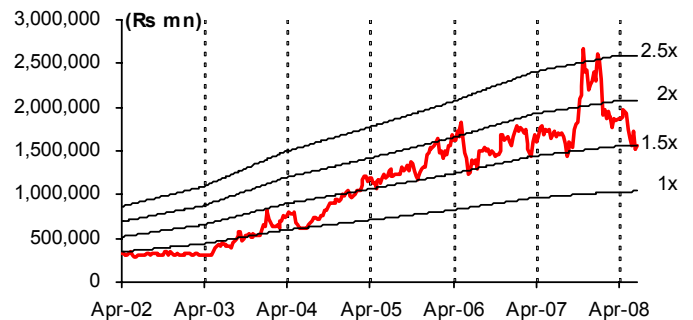
P/BV Band



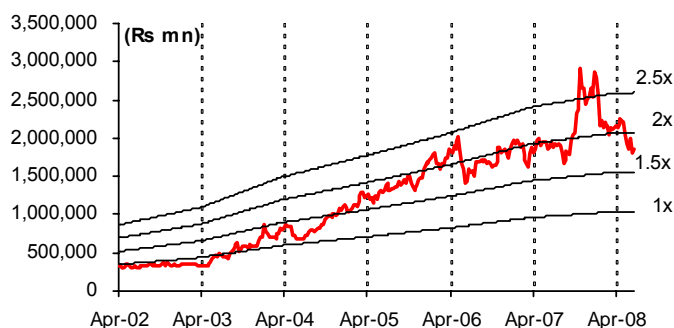
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Source: Bloomberg, Religare Institutional Equity Research

Financials

Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Net sales	706,808	822,615	961,405	1,034,723	1,050,269
EBITDA	310,799	356,708	395,766	439,378	460,493
EBITDA margin (%)	44.0	43.4	41.2	42.5	43.8
Depreciation	97,852	119,678	103,356	104,917	115,754
EBIT	212,947	237,030	292,411	334,461	344,738
Other income	27,733	47,388	40,377	38,593	50,532
Interest Exp/(Inc)	1,135	-1,058	9,629	1,974	2,015
PBT (Operating)	239,545	285,476	323,158	371,081	393,255
PBT margin (%)	33.9	34.7	33.6	35.9	37.4
Extra ord (inc)/exp	-6,405	8,004	0	0	0
Taxes	84,932	98,454	121,418	137,187	145,384
Minority interest	1,006	1,424	3,510	2,876	2,550
PAT(Reported)	160,013	177,594	198,344	231,132	245,436
Minority Interest					
Adj PAT	153,714	172,843	198,344	231,132	245,436
Adj PAT margin (%)	21.7	21.0	20.6	22.3	23.4

Quarterly – Financials

(Rs mn)

	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08
Net sales	123970	136877	154139	151208	156261
Changes (%)	4.2	-6.3	9.6	-2.9	26.0
EBITDA	44145	79223	84153	80318	57767
Changes (%)	-34.4	-2.3	19.5	-9.8	30.9
Margin (%)	35.6	57.9	54.6	53.1	37.0
PAT	26817	46105	50974	43665	26271
PAT adj	22067	46105	50974	43665	26271
Changes (%)	9.7	11.9	22.1	-6.5	19.1
Margin (%)	17.8	33.7	33.1	28.9	16.8
EPS adj (Rs)	10.3	21.6	23.8	20.4	12.3
EPS dil (Rs)	10.3	21.6	23.8	20.4	12.3

Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Growth					
Net sales (%)	18.4	16.4	16.5	6.9	1.5
EBITDA (%)	10.7	14.8	10.9	11.0	4.8
PAT adjusted (%)	2.9	17.2	14.7	16.5	6.2
EPS adjusted (%)	2.9	17.2	14.7	16.5	6.2
EPS diluted (%)	2.9	17.2	14.7	16.5	6.2
EPS Consl and dilu. (%)	2.9	17.2	14.7	16.5	6.2

Valuations

P/E (x)	12.0	7.1	9.3	8.0	7.5
P/BV (x)	3.3	2.8	2.3	2.0	1.8
EV/EBITDA (x)	5.4	4.7	4.2	3.8	3.6
EV/Sales (x)	2.4	2.0	1.7	1.6	1.6

Profitability

EBITDA margin (%)	44.0	43.4	41.2	42.5	43.8
Adj PAT margin (%)	21.7	21.0	20.6	22.3	23.4
RoE (%)	29.2	28.8	27.3	27.3	25.3
RoCE (%)	29.0	27.5	29.8	30.4	28.1
RoIC (%)	19.5	21.3	21.2	23.4	22.6

B/S ratios

Inventory days	46	45	50	50	50
Creditor days	127	100	118	127	127
Debtor days	23	21	29	29	29
Working Capital days	89	91	88	107	134
Net debt/equity	-0.1	-0.3	-0.2	-0.3	-0.3

* ROIC is calculated on post tax basis.

Balance sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Liabilities					
Equity share capital	14259	21389	21389	21389	21389
Total Res. & Surplus	553421	645719	765353	882107	1013166
Total Shareholders' fund	567680	667108	786742	903496	1034555
Convertible Debt					
Others Debt	22341	16005	7867	9035	10346
Total Loans	22341	16005	7867	9035	10346
Deferred tax liability (net)	71633	81119	81119	81119	81119
Lia. for abandon. of well	128675	151857	151857	151857	151857
Minority Interest	7230	8321	11830	14707	17257
Total liabilities	797560	924409	1039415	1160213	1295133
Assets					
Net fixed assets & others	451445	537096	590433	643771	697108
Capital WIP & others	116606	110303	144457	144457	144458
Total non-current assets	585153	678015	765507	818844	872183
Total investments - non current	35579	35832	35832	35832	35832
Current assets					
Inventories	49433	58743	77777	81862	81096
Sundry debtors	44271	48167	75544	80739	81964
Cash & cash equivalents	91057	206728	176989	259299	334296
Cash	21204	24678	28754	30731	31198
Liquid investments	69852	182050	148235	228567	303099
Other current assets	120683	74738	78750	78750	78751
Total current assets	305443	388377	409060	500649	576108
Total current liabilities	91308	133745	126316	132017	126005
Total provisions	40971	49211	50668	69095	68984
Net current assets	173165	205421	232076	299537	381118
Misc. expenditure	3663.35	5140.81	6000	6000	6000
Total assets	797560	924409	1039415	1160213	1295133

Cash flow

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Cash from operations					
PBT	239,808	277,472	323,158	371,081	393,255
Tax paid	84,932	98,454	121,418	137,187	145,384
Dep & amortization	68,274	95,835	76,170	76,170	76,170
Working capital changes	37304	-79941	60469	-12871	7050
Net cash from op.	185,846	354,794	217,440	322,935	316,991
Cash from inv.					
Capital expenditure	160651	175183	163661	129507	129508
Sale/pur of inv & others	10489	15245	859	0	0
Net cash from inv.	171141	190428	164520	129507	129508
Cash from financing					
Issue of shares & share pre.	0	(0)	0	0	0
Dividend paid	73339	76688	78711	114377	114377
Debt change	43212	26331	-8138	1168	1311
Inc/dec in Minority int and Oth	969	-1810	114	114	115
Net cash from financing	-29157	-52168	-86735	-113095	-112951
Net change in cash	-14,451	112,198	-33,815	80,332	74,531

Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
EPS adjusted	71.9	80.8	92.7	108.1	114.7
EPS diluted - wtd	71.9	80.8	92.7	108.1	114.7
EPS Consl and diluted	71.9	80.8	92.7	108.1	114.7
CEPS	118	139	141	157	169
Book value	265	312	368	422	484
Dividend	30.0	31.0	32.0	46.5	46.5
O/s shs.-actual (mn)	2138.89	2138.89	2138.89	2138.89	2138.89
O/s shs.-diluted (mn)	2138.89	2138.89	2138.89	2138.89	2138.89
O/s shs wtd / diluted (mn)	2138.89	2138.89	2138.89	2138.89	2138.89

Rating definition

Buy	: > 15% returns relative to Sensex	Accumulate	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

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