RESULTS REVIEW

Share Data

Market Cap	Rs. 2,653.9 bn
Price	Rs. 1,240.80
BSE Sensex	20,216.7
Reuters	ONGC.BO
Bloomberg	ONGC IN
Avg. Volume (52 Week)	0.3 mn
52-Week High/Low	Rs. 1,386.9 / 750
Shares Outstanding	2,138.9 mn

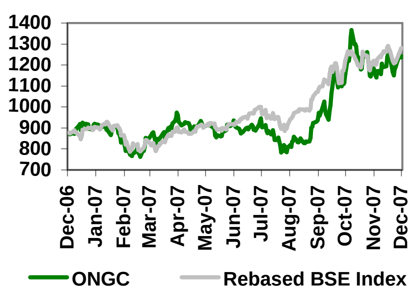
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	106.8	123.1
+/- (%)	28.6%	15.3%
PER (x)	11.6x	10.1x
EV/ Sales (x)	2.8x	2.6x
EV/ EBITDA (x)	6.2x	5.5x

Shareholding Pattern (%)

Promoters	74
FIIs	9
Institutions	5
Public & Others	13

Relative Performance



Oil and Natural Gas Corporation Ltd. Hold

Aging reserves - in search of new discoveries

Oil and Natural Gas Corporation Limited (ONGC), in the second quarter, reported a 9.6% yoy increase in net sales to Rs. 154.1 bn on the back of higher production volumes, higher average realisation and lower subsidy discounts. EBITDA rose by 19.5% yoy to Rs. 84.2 bn and margin improved by 456 bps to 54.6% due to higher revenues, increased inventory levels, lower purchase cost of trading goods and lower staff cost. In addition to the above factors, higher other income drove the net profit up by 22.1% yoy to Rs. 51 bn.

The global crude prices have been exhibiting an upward climb in the recent past. This has resulted in the rise in average realisation prices. Factoring in the above, together with higher crude and natural gas production, we have revised our estimates and expect the net sales to increase from Rs. 822.5 bn in FY07 to Rs. 1,033 bn in FY09E, representing a CAGR of 12.1%. However, the declining output levels from present reserves and the possibility of adhoc increase in subsidy sharing continue to remain major concerns. Based on the above and considering the recent surge in the share prices, we believe that there is limited upside at the present levels. Maintain Hold**.**

Result Highlights

Net sales rose by 9.6% yoy to Rs. 154.1 bn for Q2'08, as a result of higher production volumes, higher average realisation, and lower subsidy discounts. The crude production for this quarter was up by 2.2% yoy to 7 MMT whereas

Key Figures (Standalone)

Quarterly data	Q2'07	Q1'08	Q2'08	QoQ%	YoY%	H1'07	H1'08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	140,686	136,877	154,139	12.6%	9.6%	288,229	291,913	1.3%
EBITDA	70,398	79,223	84,153	6.2%	19.5%	151,493	163,376	7.8%
Net Profit	41,740	46,105	50,975	10.6%	22.1%	82,930	97,080	17.1%
Margins(%)								
EBITDA	50.0%	57.9%	54.6%			52.6%	56.0%	
NPM	29.7%	33.7%	33.1%			28.8%	33.3%	
Per Share Data (Rs.)								
Normalised EPS	19.5	21.6	23.8	10.6%	22.1%	38.8	45.4	17.1%

Higher production volume and greater realisation rate boost the topline

the natural gas production climbed by 11.4% yoy to 6.35 BCM. The average price realisation of crude was higher by 23.1% yoy to USD 55.9 per barrel, in Q2'08. In addition, the Company gave lower subsidy discounts of Rs. 38 bn to the OMCs, as compared to Rs. 50.3 bn in Q2'07.

EBITDA increased by 19.5% yoy to Rs. 84.2 bn and margin improved by 456 bps to 54.6% due to higher revenues, increased inventory levels, lower purchase cost of trading goods, and lower staff cost. The inventories increased to Rs. 871.6 mn as against a decrease of Rs. 253.3 mn in Q2'07. The proportion of purchase cost of trading goods to sales dropped by 139 bps to 10.2% and the staff expenditure to sales declined by 208 bps to 2.4% in Q2'08.

Net profit registered an even higher growth of 22.1% yoy at Rs. 51 bn in Q2'08. Apart from a decrease in operating expenses, a higher other income of Rs. 12.1 bn as against Rs. 9.4 bn in Q2'07, also contributed to the growth in net profit. The staff expenditure was lower because the Company has started allocating charges for employee benefits and general administration specific to Assets, Basin, etc. to the respective cost centres, thus, increasing the profit before tax by Rs. 1.2 bn for Q2'08. However, the interest cost, in this quarter, increased to Rs. 304.9 mn from Rs. 41 mn in Q2'07 which restricted the rise in net profit.

Key Events

Nine oil and gas discoveries during the first half of the year

- ONGC, under the exploration business, made four more discoveries in the second quarter, two in Western Onland (Ankleshwar-317, Dabka-57), one in Assam & Arakan Basin (Panidihing-6), and one in Cauvery Onland (Kali-7).

Mumbai High in the 2nd phase of Redevelopment - oil recovery targeted at over 346 MMT

- The Company is making an investment of Rs. 57.1 bn in the redevelopment of Mumbai High in the western offshore, to enhance the production from the south fields and improve the oil recovery to over 346 MMT with an incremental oil of 22 MMT.

ONGC Videsh Ltd. gets rights of exploration in three blocks in Columbia and PSC with 100% participating interest in three deep water blocks in Myanmar

- MRPL, a subsidiary of the Company, has signed a four year production supply agreement with Shell India Marketing Private Ltd. The contract is extendable by another two years.
- ONGC Videsh Ltd. (OVL), a wholly owned subsidiary, has bagged three exploration blocks in Columbia, two blocks in collaboration with Ecopetrol and one in collaboration with Ecopetrol and Petrobras.
- OVL has also signed a production sharing contract (PSC) with the Myanmar Oil and Gas Enterprise (MOGE) to operate in three deep-water blocks in Myanmar in which the Company will have 100% participating interest.
- ONGC Mittal Energy Ltd. (OMEL) has acquired 30% participating interest in an exploration block located in Turkmenistan in the Caspian Sea, covering an area of 5,663 sq km.
- OMEL has also won the rights to explore in two areas in Trinidad & Tobago.

Key Risks

- Decline in estimated average price realisation per boe to negatively impact sales.
- In the current scenario of rising crude prices, the possibility of imposition of higher subsidy burden on the Company is high. This will have a negative impact on margins.
- Further appreciation of rupee could have an affect on the Company's realisation price.
- An added risk that ONGC is facing is the threat of delisting as it has failed to comply with SEBI's requirement regarding independent directors.

Outlook

Rs. 740 bn capital spending planned for domestic operations and Rs. 460 bn for international expansions, in the 11th five year plan

The increase in the global crude prices in the recent past has resulted in rise in average realisation prices. Factoring in the above, together with higher crude and natural gas production, we have revised our estimates and expect the net sales to increase from Rs. 822.5 bn in FY07 to Rs. 1,033 bn in FY09E, representing a CAGR of 12.1%. ONGC has planned for heavy capital spending in the E&P business over the next few years. If the Company is able to explore potential new reserves, it will release the pressure off the existing reserves. The possibility of finding new reserves is a potential upside in the long run; however, the likelihood of adhoc increase in subsidy sharing, further rupee appreciation, and the sub-optimal outputs from present reserves continue to remain major concerns.

At the current price of Rs. 1,240.8, the stock is trading at a forward P/E of 11.6x for FY08E and 10.1x for FY09E. Based on the above factors and considering the recent surge in the share prices, we believe that there is limited upside at the present levels. Hence we maintain our Hold rating**.**

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	706,424	822,529	930,981	1,033,007	12.1%
EBITDA	280,713	310,744	351,253	427,724	479,763	16.9%
Net Profit	143,391	153,977	177,696	228,469	263,397	21.7%
Margins (%)						
EBITDA	47.0%	44.0%	42.7%	45.9%	46.4%	
NPM	24.0%	21.8%	21.6%	24.5%	25.5%	
Per Share Data (Rs.)						
Normalised EPS	67.0	72.0	83.1	106.8	123.1	21.7%
PER (x)	8.8x	12.1x	14.9x	11.6x	10.1x	

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