



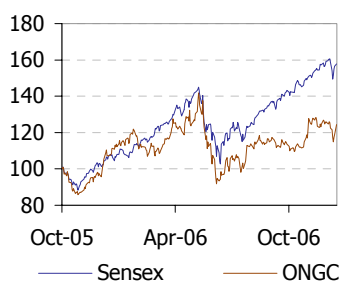
ONGC

Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 2,139mn
Market cap : Rs.1,828bn
52 week high/low : Rs.1,009/ Rs.620
Avg. daily vol. (6mth) : 1.9mn shares
Bloomberg code : ONGC IN
Reuters code : ONGC.BO

Shareholding (%) Sep-06 QoQ chg

Category	Shareholding (%)	QoQ chg
Promoters	74.1	0.0
FIIs	9.3	(0.2)
MFs / UTI	1.2	0.1
Banks / FIS	3.0	0.1
Others	12.4	0.0

ONGC AT PAYBACK OF 2 YEARS???

Media reports suggest that, ONGC has encountered one of the biggest gas finds in India off Andhra Coast. Potentially, this could enhance ONGC's OGIP by ~21 tcf or 4 bn BoE (current 1 P reserves at 5.1bn BoE). As of now this discovery remains unconfirmed by the management and some formal communication is expected soon.

A significant discovery

Although ONGC's annual reserves accretion to production ratio has usually been ~1 (refer chart overleaf), this has been largely achieved thru investments in sweating existing fields v/s new discoveries. Reserves accretion through large oil/gas discoveries in the recent past however has been low, as ONGC had a limited success in its exploration activities. The gas find, assuming to be true, would therefore mark a significant milestone for ONGC's exploration activity.

Risk premium expected to reduce

Apart from issue of subsidies, limited success in the exploration front has been a value depressant for ONGC. Alternatively, investors have viewed ONGC's growth contingent to its success in exploration activity and attributed a significant "risk premium" for the growth, despite having sufficient 1P reserves to sustain operations for next 16 years. Such large discoveries would certainly address the growth concerns and **reduce the "risk premium" associated with growth.**

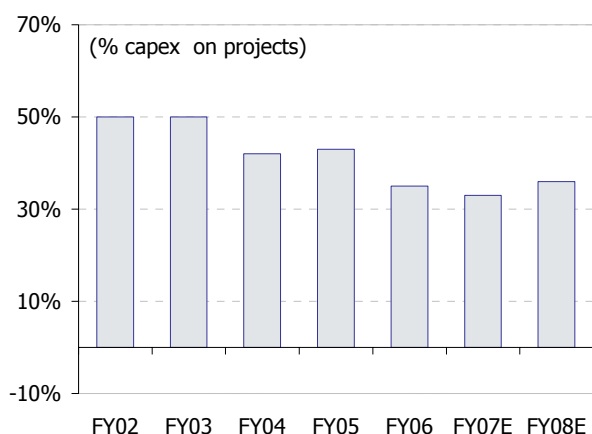
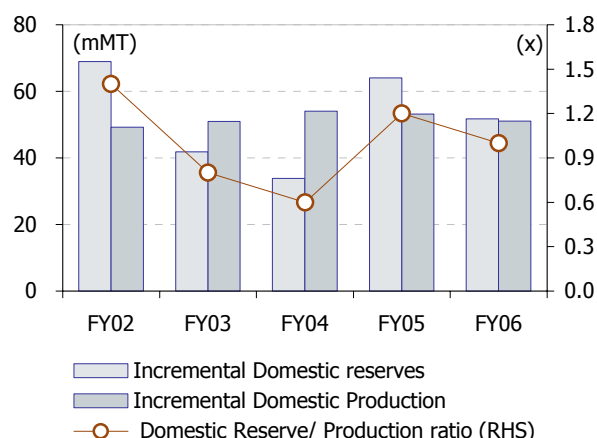
ONGC at payback of 2 years?

ONGC's value after netting off – (1) estimated value of **OVL (37% of CMP)**, (2) Investment portfolio and (3) new gas discovery, **implies a payback of <2 years** (refer overleaf). In other words, ONGC's residual valuations imply an EV/BoE of 2.2x over a 1 P reserves base of 5.1bn BoE v/s global average of 15x.

Financial summary

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2005	602,859	143,426	-	67.1	52.7	-	24.5	35.6	-	40
2006	717,442	153,715	-	71.9	7.2	-	21.8	32.7	-	45
2007E	932,358	190,549	85.5	89.1	24.0	9.6	23.2	34.3	4.8	51
2008E	937,600	190,998	91.1	89.3	0.2	9.6	21.2	30.7	4.6	50

Source: *Consensus broker estimates, Company, ENAM estimates

High reliance on "asset sweat"**Reserve accretion largely thru projects**

Source: Company

Implied valuation of ONGC's domestic operations

		Value (Rs.bn)	Value (US\$bn)	Value (Rs. shr)	Comment
ONGC's Current Market Cap	(A)	1,829	41	855	At CMP of Rs.855
Less:					
Estimated value of ONGC Videsh	(B)	675	15	316	1.5 bn BoE valued at 10x EV/BoE
Investment Portfolio of ONGC	(C)	389	9	182	-
Valuation of the new gas find	(D)	252	6	118	22 tcf 3 P reserves + resources valued at 1.5x EV/BoE
Subtotal	(E)= (B)+ (C) + (D)	1,315	29	615	-
Implied Valns of ONGC dom opern (F) = (A) - (E)		513	11	240	-

Implied Valuations of ONGC's domestic operations		Comment
Stand-alone FY07E EBIDTA (Rs.bn)	292	
Implied EV/EBIDTA (x)	1.8	Payback of <2 years
Domestic 1 P Reserves (bn. BoE)	5.1	
Implied EV/BoE (x)	2.2	V/s Global average of 15x

Key Assumptions:

OVL's EV/BoE (x)	10
INR/USD	45
ONGC's no of shares outstanding (bn)	2.1
CMP of ONGC (Rs)	855
FY07E EBIDTA (Rs bn)	292

Source: ENAM Research

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