

**ONGC**Bloomberg: **ONGC IN EQUITY**Reuters: **ONGC.BO**Recommendation: **BUY**

No Change

**FLASH UPDATE**

## 'Other income' drives earnings

**4QFY10 results above expectation; 'Other income' the driver:** ONGC's 4QFY10 PAT (Standalone) at Rs37.8bn was higher than our expectation of Rs33.5bn. This outperformance, we reckon, has been driven predominantly by higher than anticipated non-operating income which came in at Rs14bn. We note that the company had under-stated 'other income' to the tune of Rs3.6bn in 3QFY10, which has been duly provided for in the quarter. The company reported a standalone and consolidated EPS of Rs78.4 and Rs90.7 respectively for FY10.

**Operational performance in-line:** The company reported crude and natural gas production (inc. JV) of 6.65mmt (+3% yoy) and 6.29bcm (+2%yoy) respectively for the quarter, broadly in-line with our expectation. VAP production, on the other showed a smart increase of 14% YoY, helped by strong naphtha production (+20% YoY).

**4Q net realisation at \$51/bbl:** ONGC's subsidy share during the quarter stood at Rs50bn, implying a net discount of US\$27.7/bbl on a gross oil price realisation of US\$79.2/bbl. Hence the net oil realisation stood at \$51.4/bbl (18% yoy; -11% qoq) for the quarter and at US\$56/bbl for FY10.

**ONGC earnings to increase by Rs40bn on APM gas price hike:** The Cabinet has approved hiking of the APM gas price from US\$1.9/mmbtu to US\$4.2/mmbtu (pre-royalty adjusted), in line with the EGoM approved KG gas pricing. We note that ONGC currently sells 18bcm of APM gas, implying incremental earnings before tax of Rs58bn on account of the hike. Providing for tax, net earnings are expected to increase by Rs40bn, implying a positive EPS impact of Rs19 (21% of cons. FY10E EPS).

**Government intent promising; Maintain BUY:** We believe that the gas price hike move by the government is bold one, considering the fact that the last APM gas price increase was done way back in June 2005. This could set precedence to the much needed reforms in petroleum product pricing. We understand the EGoM is expected to meet on 07<sup>th</sup> June 2010 to decide on implementation of the Parikh committee report and given the current crude prices, de-regulation in auto fuels, especially petrol cannot be ruled out. This could potentially re-rate the sector. Hence, we maintain our **BUY** recommendation on the stock with a target price of Rs1,170.

### Exhibit 1: Quarter results

(Rs mn)	4QFY10	4QFY09	% chg	FY10	FY09	% chg
<b>Net Sales</b>	<b>147,870</b>	<b>121,300</b>	<b>21.9%</b>	<b>604,302</b>	<b>636,188</b>	<b>-5.0%</b>
Expenditure	(63,000)	(63,640)	-1.0%	(242,069)	(316,794)	-23.6%
<b>EBITDA</b>	<b>84,870</b>	<b>59,095</b>	<b>43.6%</b>	<b>362,233</b>	<b>319,394</b>	<b>13.4%</b>
Interest	(560)	(140)	300.0%	(686)	(1,189)	-42.3%
Depreciation & amortisation	(44,480)	(42,444)	4.8%	(146,588)	(131,208)	11.7%
Non-Operating Income	14,000	14,230	-1.6%	34,878	52,810	-34.0%
PBT	53,830	29,306	83.7%	249,838	239,808	4.2%
Tax	(16,070)	(7,240)	122.0%	(82,167)	(78,544)	4.6%
<b>PAT</b>	<b>37,760</b>	<b>22,066</b>	<b>71.1%</b>	<b>167,671</b>	<b>161,264</b>	<b>4.0%</b>
EPS	17.65	10.32	71.1%	78.39	75.40	4.0%

Source: Company, Ambit Capital research estimates

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### Recommendation

<b>CMP:</b>	Rs1,129
<b>Target Price (Period):</b>	Rs1170
<b>Previous TP:</b>	Rs1170
<b>Upside/Downside (%)</b>	3.6
<b>EPS (FY11):</b>	Rs112
<b>Change from previous (%)</b>	0.0
<b>Variance from consensus (%)</b>	8.0

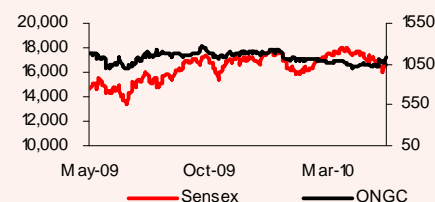
### Stock Information

<b>Mkt cap:</b>	Rs2,414,788mn/US\$51,042mn
<b>52-wk H/L:</b>	1,278/934
<b>3M Avg. daily vol. (mn):</b>	2
<b>Beta (x):</b>	0.9
<b>BSE Sensex:</b>	16863
<b>Nifty:</b>	5067

### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	8.5	1.0	0.0	-4.2
Rel. to Sensex	11.9	-1.6	-15.2	-0.7

### Performance (%)



Source: Bloomberg, Ambit Capital research

## Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
Sell	< 5%

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