

4 November 2011

MF Global Quarterly Update

ONGC

| Results better estimates, maintain Buy for attractive valuations

OIL & GAS

ONGC IN: **BUY**

RS 277

ONGC's Q2FY12 Results beat street estimates: ONGC's Q2FY12 results have been ahead of our and street estimates due to higher crude oil sales volumes, favourable INR and proportionately lower subsidies compared to rise in crude oil realisations. Revenue topped estimates by 9% to Rs 226 bn (up by 40% qoq) mainly helped by better volumes, rupee realisations and lower subsidies. In line with revenue growth, operating profit improved 53% qoq to Rs 142 bn. The depreciation charge fell 20% qoq mainly led by a considerable fall in dry well write-offs (management substantiated saying wells were not completed in the quarter and thus findings may reflect in the coming quarters). Higher dividend income and lower tax outgo (due to reversal of R&D spends) further helped PAT growth, that more than doubled qoq to Rs 86 bn. Subsidy outgo has been flat qoq at Rs 120 bn.

Reverses falling production trend, royalty recoverability and lower subsidies are further earnings positive: ONGC has reversed the 3 qr trend of fall in crude oil sales/production and a rise in dry well write off charge, which was concerning hitherto and this trend may likely uphold. Further lower subsidies (recall price hikes, excise/custom duty cuts announced on 26th June led to overall reduction of under-recoveries) and royalty outgo proportionate to ONGC's share for MBA fields are earnings positive going forward. ONGC has hitherto paid Rs 25bn towards Cairn's share of royalty, which may likely reverse (not incl in our estimates) post completion of CNE-VED deal.

Raise estimates, maintains Buy for attractive valuations: Ahead of ONGC's planned FPO, expect some clarity to emerge on subsidy sharing among the upstream, OMC's and the Government. We raise estimates by 9%/4% to account for lower subsidies (we model for subsidies of Rs 290/150 bn in FY12/13E). On FY13E stock trades at 9.2x PER, 1.8xPBR and offers dividend yield of 3.2%. Maintain Buy with a PT of Rs 360.

VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
NET SALES	1,045,884	1,017,546	1,176,151	1,425,549	1,428,944
EBIDTA	416,899	443,496	484,623	603,428	638,120
EBIDTA MARGINS, %	39.9	43.6	41.2	42.3	44.7
CORE EBIDTA	416,899	443,496	484,623	603,428	638,120
NET PROFIT	197,954	194,035	224,650	256,922	262,536
NET PROFIT MARGIN, %	18.9	19.1	19.1	18.0	18.4
EPS, RS	23.1	22.7	26.3	30.0	30.7
EPS GROWTH, %	(0.5)	(2.0)	15.8	14.4	2.2
PER, X	12.0	12.2	10.5	9.2	9.0
EV/EBIDTA, X	5.5	5.0	4.6	3.5	3.3
PRICE/BOOK VALUE, X	2.5	2.3	2.0	1.8	1.6
ROIC, %	21.8	18.9	19.8	23.1	20.9
ROE, %	23.1	19.9	20.5	20.5	18.3
DIVIDEND YIELD, %	2.9	3.0	3.2	3.2	3.2

TARGET RS 360(+30%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	8555MN
MARKET CAP (RS) :	2298BN
MARKET CAP (USD) :	52BN
52 - WK HI/LO (RS) :	368 / 261
LIQUIDITY 3M (USD) :	30.4MN
FACE VALUE (RS) :	10

SHARE HOLDING PATTERN, %

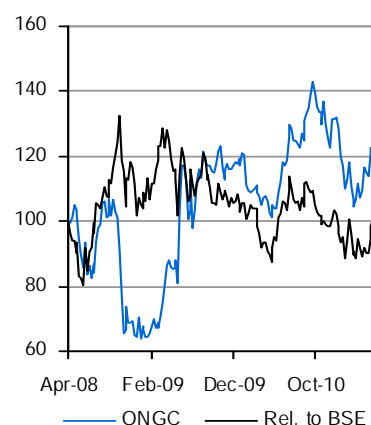
PROMOTERS :	74.1
FII / NRI :	4.7
FI / MF :	7.6
NON-PROMOTER CORP. HOLDINGS :	11.7
PUBLIC & OTHERS :	1.6

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-8.8	4.0	-3.5
REL TO BSE	-5.5	0.2	-12.7

Source: Company, MF Global India Research Estimates

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

QUARTERLY RESULTS

RS MILLION	Q1FY12	Q2FY11	Q2FY12	YOY%	QOQ%	H1 FY11	H1 FY12	YOY%
NET SALES	161,990	181,936	226,163	24.3	39.6	318,592	388,153	21.8
OTHER INCOME	9,299	11,429	14,420	26.2	55.1	17,075	23,719	38.9
TOTAL INCOME	171,289	193,365	240,583	24.4	40.5	335,667	411,872	22.7
TOTAL EXPENDITURE	69,320	71,085	84,567	19.0	22.0	127,383	153,887	20.8
INC/(DEC) IN STOCK IN TRADE	(705)	(49)	(261)	434.6	(63.0)	(972)	(966)	(0.6)
PURCHASES	6	29	5	(84.7)	(29.7)	73	11	(85.0)
CONSUMPTION OF RAW MATERIALS	1,488	1,460	1,649	12.9	10.8	2,813	3,137	11.5
TOTAL MATERIAL COST	789	1,441	1,392	(3.4)	76.4	1,914	2,181	14.0
(AS % OF SALES)	0.49	0.79	0.62			0.60	0.56	
STAFF EXPENDITURE	3,098	3,059	3,276	7.1	5.7	5,848	6,374	9.0
(AS % OF SALES)	1.91	1.68	1.45			1.84	1.64	
STATUTORY LEVIES	37,306	38,696	46,532	20.3	24.7	67,367	83,838	24.4
(AS % OF SALES)	23.03	21.27	20.57			21.15	21.60	
OTHER EXPENDITURE	28,127	27,889	33,367	19.6	18.6	52,254	61,494	17.7
(AS % OF SALES)	17.36	15.33	14.75			16.40	15.84	
OPERATING PROFIT EXCLUDING OI	92,670	110,851	141,596	27.7	52.8	191,209	234,266	22.5
OPERATING PROFIT INCLUDING OI	101,969	122,280	156,016	27.6	53.0	208,284	257,985	23.9
INTEREST	40	9	65	617.6	62.8	37	105	187.2
GROSS PROFIT	101,929	122,271	155,951	27.5	53.0	208,247	257,880	23.8
DEPRECIATION	41,225	44,001	32,782	(25.5)	(20.5)	75,143	74,006	(1.5)
PROFIT BEFORE TAX	60,704	78,270	123,169	57.4	102.9	133,104	183,873	38.1
PROVISION FOR TAXATION	19,755	24,382	36,747	50.7	86.0	42,605	56,502	32.6
TAX RATE %	33	31	30			32	31	
PROFIT AFTER TAX	40,949	53,888	86,422	60.4	111.0	90,499	127,371	40.7
NET PROFIT	40,949	53,888	86,422	60.4	111.0	90,499	127,371	40.7
NET PROFIT AFTER EO	40,949	53,888	86,422	60.4	111.0	90,499	127,371	40.7
RATIOS (%)								
OPM (EXCL OI)	57.21	60.93	62.61			60.02	60.35	
OPM (INCL OI)	59.53	63.24	64.85			62.05	62.64	
INTEREST/SALES	0.02	0.01	0.03			0.01	0.03	
GPM	59.51	63.23	64.82			62.04	62.61	
TAX/PBT	32.54	31.15	29.83			32.01	30.73	
NPM	23.91	27.87	35.92			26.96	30.92	

Source: Company, MF Global India Research

KEY OPERATING PARAMETERS (STANDALONE)

	Q1FY12	Q2FY11	Q2FY12	YOY%	QOQ%	H1 FY11	H1 FY12	YOY%
GROSS REALISATIONS (\$/BBL)	121.29	79.21	116.94	47.6	(3.6)	80.0	119.1	48.9
NET REALISATIONS (\$/BBL)	48.76	62.75	83.70	33.4	71.7	55.4	66.2	19.5
SUBSIDY (\$/BBL)	72.53	16.46	33.24	101.9	(54.2)	24.6	52.9	114.9
NET REALISATIONS RS. BBL	2,180	2,918	3,830	31.3	75.7	2,556.2	3,004.8	17.6
SUBSIDY RS. BN	120.46	30.19	57.13	89.2	(52.6)	85	178	108.1
CRUDE OIL PRODN (MMT)	6.76	6.85	6.70	(2.2)	(0.9)	13	13	(0.0)
CRUDE OIL SALES (MMT)	5.69	5.91	5.81	(1.6)	2.2	11	12	2.5
VAP PRODUCTS (MMT)	0.70	0.7	0.8	10.0	15.1	2	1	(2.1)
NATURAL GAS PRODN (BCM)	6.16	6.25	6.30	0.8	2.2	13	12	(1.6)
NATURAL GAS SALES (BCM)	4.88	5.04	5.05	0.2	3.5	10	10	(2.6)
NATURAL GAS (RS./SCM)	6.86	7.11	6.87	(3.4)	0.2	6	7	13.8
EXCHANGE RATE RE/USD	44.7	46.5	45.8	(1.6)	2.4	46.1	45.2	(1.9)

Source: Company, MF Global India Research

UPSTREAM SUBSIDY BREAK UP; ADHOC SUBSIDY SHARING STILL PERSISTS

FIGS IN RS MN	Q1 FY12	Q2FY12	H1FY12
ONGC	120,463	571,300	691,763
OIL	17,807	84,500	102,307
GAIL	6,819	56,700	63,519
TOTAL	145,088	712,500	857,588
% BREAK UP			
ONGC	83.03	80.18	80.66
OIL	12.27	11.86	11.93
GAIL	4.70	7.96	7.41

Source: Company, MF Global India Research

REVENUE BREAK-UP

RS MN	Q1FY12	Q2FY11	Q2FY12	YOY%	QOQ%	H1 FY11	H1 FY12	YOY%
REVENUE BREAKUP (RS MN)								
CRUDE OIL	110,930	130,440	172,700	32.4	55.7	224,390	283,630	26.4
NATURAL GAS	33,460	35840	34,700	(3.2)	3.7	61,340	68,160	11.1
LPG	5,410	5440	6,850	25.9	26.6	11,070	12,260	10.7
ARN	15,550	10670	17060	59.9	9.7	24,640	32,610	32.3
C2/C3	2,140	1750	3410	94.9	59.3	3,210	5,550	72.9
OTHERS / SKO	1,140	950	780	(17.9)	(31.6)	1,950	1,920	(1.5)
BAL.FIG	(5,950)	(2700)	(8630)	219.6	45.0	(7,110)	(14,580)	105.1
REALISATION								
CRUDE OIL (\$/BBL)	59.5	64.8	88.6	36.8	48.8	59	74	25.9
NATURAL GAS (RS/BCM)	6,859	7,111	6,871	(3.4)	0.2	6,031	6,865	13.8
LPG (RS/MT)	22,731	21,417	26,245	22.5	15.5	21,705	24,488	12.8
ARN (RS/MT)	44,556	4,930	8,589	74.2	(80.7)	18,522	26,573	43.5
C2/C3 (RS/MT)	25,176	20,115	26,434	31.4	5.0	20,637	25,805	25.0

Source: Company, MF Global India Research

Outlook and Valuation

While volumes are estimated to be flat to declining, the expansion in earnings could happen only in the event of higher net realisations. We have assumed a net realization of US\$60/bbl; beyond FY14E and thus work a fair value price target for ONGC at Rs 360, an upside of 30% from current levels. We reiterate Buy.

SUM-OF-PARTS VALUATION

	RS MN	COMMENT
TOTAL DISCOUNTED FREE CASH FLOW	1,980,039	DCF VALUE THROUGH FCFF MODEL
OVL	592,581	ASSUMED EV/BOE OF \$7/BBL
IMPERIAL ENERGY	83,536	ASSUMED EV/BOE OF \$2/BBL
MRPL	68,850	30% DISCOUNT TO CMP
INVESTMENTS		
GAIL	15,094	20% DISCOUNT TO CMP
IOC	53,652	20% DISCOUNT TO CMP
PETRONET LNG	12,900	20% DISCOUNT TO CMP
LESS: DEBT	12,006	LOAN FUNDS AT THE END OF FY10E (ADDN RS 50 BN FOR IMPERIAL CONSIDERED)
ADD: CASH		CASH & CASH EQUIVALENT BALANCE FOR FY10E (ADJ FOR RS 45.4 BN OF CASH PAYOUT TO IMPERIAL SHAREHOLDERS)
	281,619	
TOTAL VALUE OF EQUITY	3,076,266	
VALUE OF STOCK IN RS/SH.	360	

Source: Company, MF Global India Research Estimates

FINANCIALS

INCOME STATEMENT

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
NET SALES	1,045,884	1,017,546	1,176,151	1,425,549	1,428,944
GROWTH, %	8	-3	16	21	0
TOTAL INCOME	1,045,884	1,017,546	1,176,151	1,425,549	1,428,944
OPERATING EXPENSES	-628,985	-574,050	-691,528	-822,121	-790,823
EBITDA (CORE)	416,899	443,496	484,623	603,428	638,120
GROWTH, %	2.7	6.4	9.3	24.5	5.7
MARGIN, %	39.9	43.6	41.2	42.3	44.7
DEPRECIATION	-154,304	-187,188	-206,284	-245,557	-258,692
EBIT	262,595	256,307	278,339	357,871	379,428
GROWTH, %	(1.6)	(2.4)	8.6	28.6	6.0
MARGIN, %	25.1	25.2	23.7	25.1	26.6
INTEREST PAID	-2,385	-5,022	-4,374	-3,667	-3,876
OTHER NON-OPERATING INCOME	50,721	52,728	69,289	35,564	34,988
NON-RECURRING ITEMS	763	401	-112	0	0
PRE-TAX PROFIT	311,794	304,492	343,172	389,803	410,575
TAX PROVIDED	-110,093	-107,138	-114,913	-128,624	-143,689
PROFIT AFTER TAX	201,701	197,354	228,259	261,179	266,886
NET PROFIT	197,954	194,035	224,539	256,922	262,536
MF NET PROFIT	197,954	194,035	224,650	256,922	262,536
GROWTH, %	(0.9)	(2.0)	15.8	14.4	2.2
NET PROFIT (ADJUSTED)	197,954	194,035	224,650	256,922	262,536
UNADJ. SHARES (M)	8,555	8,555	8,556	8,555	8,555
WTD AVG SHARES (M)	8,555	8,555	8,556	8,555	8,555

CASH FLOW

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
PRE-TAX PROFIT	311,794	304,492	343,172	389,803	410,575
DEPRECIATION	154,304	187,188	206,284	245,557	258,692
CHG IN WORKING CAPITAL	-60,854	110,373	16,767	8,537	-16,187
TOTAL TAX PAID	-105,238	-96,457	-106,299	-128,862	-143,689
OTHER OPERATING ACTIVITIES	-10,029	-217,767	3,361	3,565	3,772
CASH FLOW FROM OPERATING ACTIVITIES	289,977	287,830	463,286	518,600	513,163
CAPITAL EXPENDITURE	-338,918	-313,262	-411,405	-301,495	-410,221
CHG IN INVESTMENTS	10,018	-16,790	18,032	0	0
OTHER INVESTING ACTIVITIES	47,090	118,955	0	0	0
CASH FLOW FROM INVESTING ACTIVITIES	-281,711	-211,019	-393,343	-301,460	-410,186
FREE CASH FLOW	8,266	76,811	69,943	217,140	102,977
EQUITY RAISED/(REPAID)	87	-1,907	453	0	0
DEBT RAISED/(REPAID)	56,147	-2,922	243	-50,906	0
DIVIDEND (INCL. TAX)	-76,596	-82,593	-86,873	-86,873	-86,873
OTHER FINANCING ACTIVITIES	-11,448	5,696	-3,462	-3,667	-3,876
CASH FLOW FROM FINANCING ACTIVITIES	-32,892	-82,727	-89,773	-141,446	-90,750
NET CHG IN CASH	-24,626	-5,916	-19,829	75,694	12,228

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
CASH & BANK	156,331	223,842	286,883	300,203	351,150
DEBTORS	71,814	71,424	97,724	93,747	98,637
INVENTORY	65,424	82,400	85,676	106,098	111,245
LOANS & ADVANCES	132,644	120,567	109,906	109,906	109,906
OTHER CURRENT ASSETS	80,933	7,431	9,130	13,364	17,864
TOTAL CURRENT ASSETS	507,146	505,664	589,318	623,318	688,801
INVESTMENTS	34,803	51,593	33,561	33,561	33,561
GROSS FIXED ASSETS	1,697,482	1,933,001	2,065,728	2,248,728	2,439,062
LESS: DEPRECIATION	-1,059,546	-1,177,574	-1,233,651	-1,438,840	-1,657,152
ADD: CAPITAL WIP	247,580	256,164	384,635	467,859	624,976
NET FIXED ASSETS	885,517	1,011,591	1,216,713	1,277,747	1,406,886
NON-CURRENT ASSETS	114,039	95,385	89,929	89,929	89,929
TOTAL ASSETS	1,541,505	1,664,398	1,929,520	2,024,554	2,219,177
CURRENT LIABILITIES	200,232	226,819	340,366	318,848	314,915
PROVISIONS	82,158	75,158	50,880	37,721	38,516
TOTAL CURRENT LIABILITIES	282,390	301,977	391,246	356,569	353,431
NON-CURRENT LIABILITIES	329,273	340,337	372,942	322,036	322,036
TOTAL LIABILITIES	611,663	642,313	764,188	678,605	675,467
PAID-UP CAPITAL	42,777	42,777	42,777	42,777	42,777
RESERVES & SURPLUS	879,457	971,289	1,110,495	1,286,752	1,479,874
SHAREHOLDERS' EQUITY	929,842	1,022,085	1,165,330	1,345,948	1,543,708
TOTAL EQUITY & LIABILITIES	1,541,505	1,664,398	1,929,520	2,024,554	2,219,177

PER-SHARE DATA

	FY2009	FY2010	FY2011	FY2012E	FY2013E
MF EPS (INR)	23.1	22.7	26.3	30.0	30.7
GROWTH, %	(0.5)	(2.0)	15.8	14.4	2.2
BOOK NAV/SHARE (INR)	108.7	119.5	136.2	156.6	177.6
FDEPS (INR)	23.1	22.7	26.3	30.0	30.7
CEPS (INR)	41.1	44.5	50.4	58.7	60.9
CFPS (INR)	39.4	50.7	45.0	56.0	55.4
DPS (INR)	8.0	8.2	8.7	8.7	8.7

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2009	FY2010	FY2011	FY2012E	FY2013E
RETURN ON ASSETS (%)	14.6	12.5	12.9	13.4	12.8
RETURN ON EQUITY (%)	23.1	19.9	20.5	20.5	18.4
RETURN ON INVESTED CAPITAL (%)	21.8	18.9	19.0	22.2	20.9
ROIC/COST OF CAPITAL (X)	2.7	2.3	2.4	2.8	2.6
ROIC - COST OF CAPITAL (%)	13.7	10.9	10.9	14.3	12.9
RETURN ON CAPITAL EMPLOYED (%)	16.8	14.4	15.3	16.0	15.0
COST OF CAPITAL (%)	8.1	8.1	8.0	7.9	7.9
ROCE - COST OF CAPITAL (%)	8.7	6.4	7.2	8.1	7.1
ASSET TURNOVER (X)	1.3	1.2	1.2	1.3	1.2
SALES/TOTAL ASSETS (X)	0.8	0.6	0.7	0.7	0.7
SALES/NET FA (X)	1.3	1.1	1.1	1.1	1.1
RECEIVABLE DAYS	25.1	25.6	30.3	30.3	30.3
INVENTORY DAYS	22.8	29.6	26.6	25.4	25.5
PAYABLE DAYS	68.3	89.6	98.5	78.5	84.2
CURRENT RATIO (X)	2.5	2.2	1.7	2.0	2.1
QUICK RATIO (X)	2.2	1.9	1.5	1.7	1.8
INTEREST COVER (X)	110.1	51.0	63.6	97.6	97.9
DIVIDEND COVER (X)	2.9	2.7	3.0	3.4	3.5
PER (X)	12.0	12.2	10.5	9.2	9.0
PEG (X) - Y-O-Y GROWTH	(23.3)	(6.2)	0.7	0.6	4.1
PRICE/BOOK (X)	2.5	2.3	2.0	1.8	1.6
YIELD (%)	2.9	3.0	3.2	3.2	3.2
EV/NET SALES (X)	2.2	2.2	1.9	1.5	1.5
EV/EBITDA (X)	5.5	5.0	4.6	3.5	3.3
EV/EBIT (X)	8.7	8.6	8.0	5.9	5.5
EV/CE	1.7	1.5	1.4	1.2	1.1
EV/IC (X)	2.9	2.5	2.3	1.9	1.8

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET RS	CMP RS	DATE
BUY	360	282	01-JUN-11
BUY	1422 (POST SPLIT RS 355)	1136	28-JAN-11
BUY	1500	1303	1-NOV-10
BUY	1450	1264	28-JUN-10
NEUTRAL	1235	1133	3-NOV-09
UNDERPERFORMER	963	1025	26-JUN-09
NEUTRAL	1235	1092	24-JUN-09
UNDERPERFORMER	963	1039	26-MAY-09
UNDERPERFORMER	595	648	15-JAN-09

VINEET BHATNAGAR	MANAGING DIRECTOR	91-22-2300 2999	VBHATNAGAR@MFGLOBAL.COM
SAJID KHALID	HEAD – INSTITUTIONAL EQUITIES	91-22-6667 9972	SAKHALID@MFGLOBAL.COM
JIGNESH SHAH	HEAD – EQUITY DERIVATIVES	91-22-6667 9735	JSHAH@MFGLOBAL.COM

EQUITY RESEARCH

MANISH AGARWALLA	VP - BANKING	91-22-6667 9962	MAGARWALLA@MFGLOBAL.COM
ABHISHEK RANGANATHAN, CFA	RETAIL, REAL ESTATE	91-22-6667 9952	ABHISHEKR@MFGLOBAL.COM
ALOK DALAL	PHARMACEUTICALS	91-22-6667 9950	ALDALAL@MFGLOBAL.COM
ANJALI VERMA	ECONOMIST	91-22-6667 9969	ANVERMA@MFGLOBAL.COM
ANKUR SHARMA	ENGINEERING, CAPITAL GOODS	91-22-6667 9759	ASHARMA@MFGLOBAL.COM
DEEPAK JAIN	AUTOMOBILES & AUTO ANCILLARIES	91-22-6667 9758	DJAIN@MFGLOBAL.COM
DHAWAL DOSHI	METALS, POWER	91-22-6667 9769	DDOSHI@MFGLOBAL.COM
DIPESH SOHANI	REAL ESTATE, MIDCAP	91-22-6667 9756	DSOHANI@MFGLOBAL.COM
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GAURI ANAND	OIL & GAS, FERTILISER	91-22-6667 9943	GANAND@MFGLOBAL.COM
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