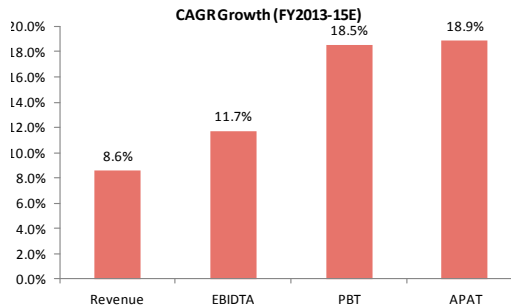


November 18, 2013

**Oil & Gas
Sector Outlook - Neutral**



Stock Recommendation	Outperform
CMP (₹)	270
Price Target (₹)	355
Upside (%)	31
52 Week H / L ₹	354/234
BSE 30	20399

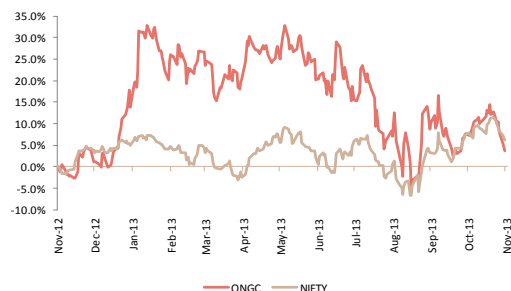
Key Data

No. of Shares, Mn.	8555.5
Mcap, ₹ Bn	2310.0
Mcap, USD Bn @ ₹60	38.5
2 W Avg Qty (BSE+NSE)	2.5

Share holding, Sept'13

Promoters	69.2
FII	6.5
DII	10.6
Public & Others	13.6

Performance	1 M	3 M	6 M	12 M
Stock Return %	-2.0	-6.5	-17.3	5.2
Relative Return %	-1.1	-12.0	-18.3	-1.7



Rohit Nagraj
rohit.n@sunidhi.com
Phone: +91-022-61131320

ONGC's Q2FY14 performance was bettered primarily by rupee depreciation. Under-recoveries for Q2FY14 stood at ₹138.0bn with net crude realisation pegged at US\$44.8/bbl. Crude and natural gas production remained flattish sequentially while the management indicated H2FY14E would witness higher crude production from Mumbai offshore and marginal fields. OVL performance for H1FY14 was better with start up of production from Sudan, contribution from ACG fields (Azerbaijan) and gas production from Myanmar field. Incrementally, ramp up in Sudan, Carabobo, Venezuela and Myanmar would add to overall production. OVL would be the major catalyst for ONGC apart from increase in production from its marginal fields. We have raised our FY15E rupee dollar exchange rate assumption which has resulted in higher subsidy burden for ONGC as well higher earnings (due to higher gas price realisations). Thus we maintain 'Outperform' with a revised price target of ₹355.

Rupee depreciation, higher crude prices aids revenues: Despite higher subsidy burden, ONGC's Q2FY14 revenues jumped by 16.1% QoQ at ₹224.1bn owing to rupee depreciation and higher crude prices. Net realisations for the quarter stood at US\$44.8/bbl (gross crude realisations at US\$109.1/bbl) with discount of US\$64.3/bbl. Crude and natural gas production remained flattish QoQ at 6.5mmt and 6.2bcm respectively. However crude and natural gas sales were marginally lower QoQ by 1.2% and 0.9% respectively.

Statutory levies, DDA jumps: Statutory levies were higher by 4.3% QoQ at ₹58.2bn on account of higher onshore production and higher realisations. DDA jumped by 47.2% YoY at ₹24.3bn on account of higher depletion at Mumbai offshore field, capitalization of platforms and capitalization of facilities at Aishwariya field in Rajasthan. Survey and dry wells write offs were also higher at ₹20.7bn for Q2FY14.

Lower yields impact other income: On a YoY basis, the yields on investments were lower and even the dividend income was lower which resulted in 12.5% YoY decline in overall other income during Q2FY14 at ₹9.9bn. Hence the PAT growth on a YoY basis was restricted to 2.8% at ₹60.6bn although it jumped by 51.0% QoQ.

Valuations remain attractive, OVL to act as catalyst: Management maintained its guidance for crude production of 27.2mmt and 28.7mmt for FY14E and FY15E and natural gas production of 25.2bcm and 26.5bcm for FY14E and FY15E respectively. During H1FY14 though crude and natural gas production stood at 13.0mmt and 12.4bcm respectively. Management expects crude production jump from its D1 offshore field as well as marginal fields thus nearing to the yearly guidance which we believe is difficult to achieve. However, we believe OVL production ramp up would be a catalyst for ONGC in medium term since production from 3 projects has started/ restarted. The stock is available at 9.1x and 7.3x FY14E and FY15E EPS of ₹29.6 and ₹36.9 respectively. Valuations continue to remain attractive and hence we maintain our 'Outperform' with SOTP based target price of ₹355.

Financials	Revenues ₹mn	EBIDTA ₹mn	APAT ₹mn	EPS ₹	P/E x	EV/EBIDTA x	ROAE %
FY11	1,201	526	225	26.2	10.2	4.1	20.8
FY12	1,473	599	250	32.9	8.2	3.6	22.4
FY13	1,624	549	223	26.1	10.3	4.2	15.6
FY14E	1,787	574	253	29.6	9.1	4.0	16.0
FY15E	1,914	685	316	36.9	7.3	3.3	18.2

Source: Company, Sunidhi Research



Quarterly snapshot

(₹ bn)	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	YoY (%)	QoQ (%)
Revenues	164.0	229.2	185.2	193.4	201.8	198.8	210.9	218.3	193.1	224.1	12.7	16.1
q-o-q growth (%)	1.8	39.8	(19.2)	4.4	4.3	(1.4)	6.1	3.5	(11.5)	16.1		
Cost of goods sold	0.8	1.4	1.2	2.2	2.7	0.0	1.8	1.4	0.8	1.2	3,303.7	53.4
% of net sales	0.5	0.6	0.7	1.1	1.3	0.0	0.8	0.6	0.4	0.5		
Statutory Levies	37.3	46.5	38.7	43.6	52.7	55.9	57.1	54.9	55.7	58.2	4.3	4.5
% of net sales	22.7	20.3	20.9	22.6	26.1	28.1	27.1	25.1	28.9	26.0		
Others	28.1	33.4	31.3	28.4	31.8	33.8	35.2	47.4	45.8	39.2	16.0	(14.3)
% of net sales	17.1	14.6	16.9	14.7	15.8	17.0	16.7	21.7	23.7	17.5		
Employee Cost	3.1	3.3	3.4	3.3	3.3	5.4	3.5	7.4	5.9	4.4	(18.8)	(24.9)
% of net sales	1.9	1.4	1.8	1.7	1.6	2.7	1.6	3.4	3.1	2.0		
EBITDA	94.7	144.7	110.5	115.8	111.3	103.7	113.4	107.3	84.9	121.0	16.7	42.6
q-o-q growth (%)	18.8	52.8	(23.6)	4.8	(3.9)	(6.8)	9.4	(5.4)	(20.9)	42.6		
EBITDA Margin (%)	57.7	63.1	59.7	59.9	55.2	52.1	53.8	49.2	44.0	54.0		
Dep. & Amort.	41.2	32.8	45.3	49.1	32.0	37.3	44.1	71.2	39.0	45.0	20.7	15.3
EBIT	53.5	111.9	65.2	66.7	79.3	66.4	69.3	36.1	45.9	76.1	14.5	65.8
Interest expenses	0.0	0.1	0.0	0.2	0.3	0.0	0.0	0.0	0.0	0.0	(97.1)	(57.1)
Other Income	7.3	11.3	41.0	9.9	10.4	19.0	12.8	12.5	12.0	14.8	(22.0)	24.0
EBT	60.7	123.2	106.2	76.4	89.4	85.4	82.1	48.5	57.8	90.9	6.4	57.2
Provision for tax	19.8	36.7	38.8	20.0	28.6	26.4	26.5	14.6	17.7	30.3	14.5	71.2
Effective tax rate (%)	32.5	29.8	36.6	26.1	32.0	30.9	32.2	30.2	30.6	33.3		
Net Profit	40.9	86.4	67.4	56.4	60.8	59.0	55.6	33.9	40.2	60.6	2.8	51.0
Prior Period Adj.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Adj. PAT	40.9	86.4	67.4	56.4	60.8	59.0	55.6	33.9	40.2	60.6	2.8	51.0
q-o-q growth (%)	46.7	111.0	(22.0)	(16.3)	7.7	(3.0)	(5.7)	(39.1)	18.5	51.0		
Adj. PAT (%)	25.0	37.7	36.4	29.2	30.1	29.7	26.4	15.5	20.8	27.1		

Operating Metrics	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	YoY (%)	QoQ (%)
Crude Production (mmt)	6.8	6.8	6.7	6.6	6.5	6.5	6.6	6.5	6.5	6.5	(0.6)	(0.1)
Gas Production (bcm)	6.2	6.4	6.3	6.6	6.4	6.4	6.3	6.2	6.2	6.2	(2.3)	0.5
Crude Sales (mmt)	5.7	5.8	5.6	5.9	5.9	5.9	6.0	5.9	5.8	5.8	(1.5)	(1.2)
Gas Sales (bcm)	4.9	5.1	5.0	5.2	5.1	5.1	5.0	5.0	4.9	4.9	(3.5)	(0.9)
Crude Gross Real. (US\$/bbl)	121.3	116.9	111.5	121.6	109.9	109.9	110.1	114.0	102.9	109.0	(0.8)	5.9
Crude Net Real. (US\$/bbl)	48.8	83.7	44.7	44.3	46.6	46.8	47.9	50.9	40.2	44.8	(4.2)	11.6
Subsidy Sharing (₹ bn)	120.5	57.1	125.4	141.7	123.5	123.3	124.3	123.1	126.2	138.0	11.9	9.3

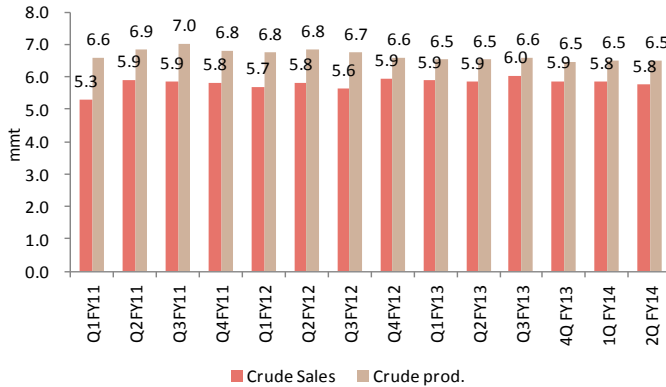
Source: Company, Sunidhi Research



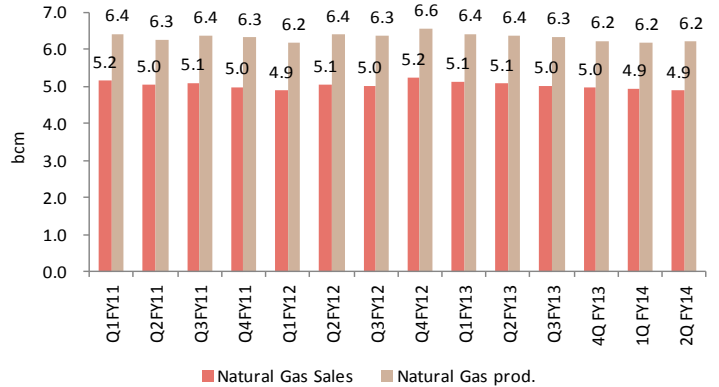
Flattish crude and natural gas production

Crude production remained flattish QoQ at 6.49mmt while sales were marginally lower at 5.78mmt. Gas production too remained largely flattish QoQ at 6.21bcm with sales of 4.89bcm.

Crude Production & Sales



Natural Gas Production & Sales



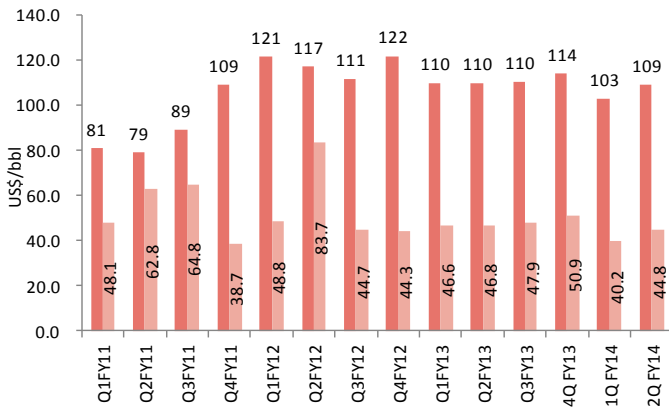
Source: Company, Sunidhi Research

Source: Company, Sunidhi Research

QoQ jump in net crude realisations at US\$44.8/bbl

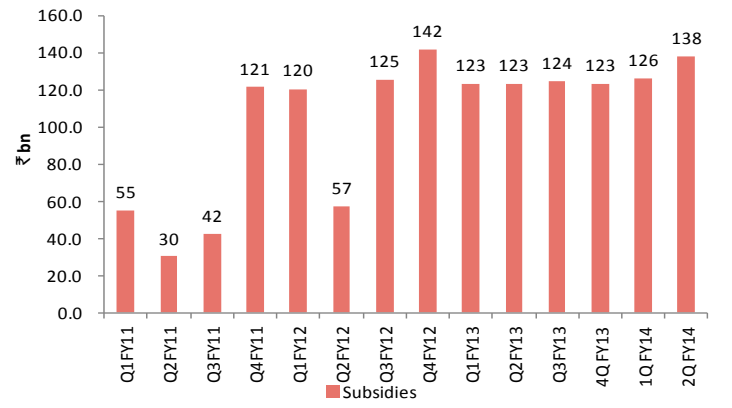
ONGC's Q2FY14 subsidy burden stood at ₹138.0bn with the company offering discount of US\$64.2/bbl to the OMCs. Gross realisations though improved QoQ by 5.9% at US\$109.0/bbl and net realisations stood at US\$44.8/bbl.

Crude gross & net realisations



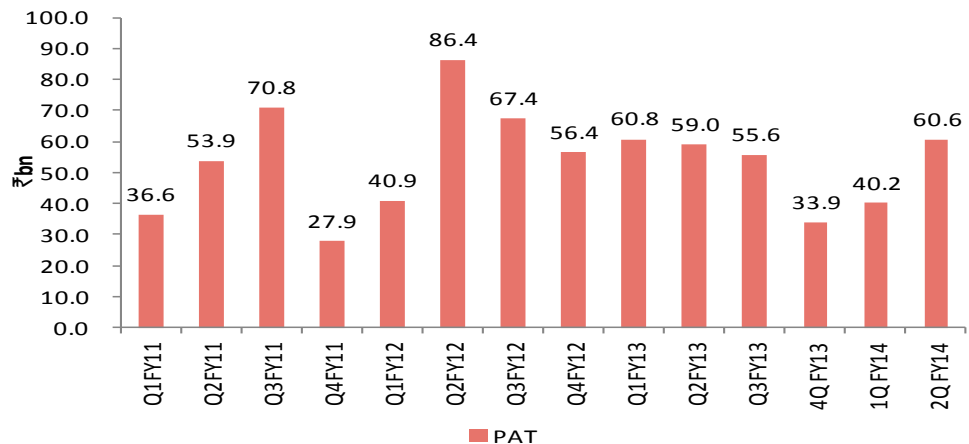
Source: Company, Sunidhi Research

Subsidy sharing



Source: Company, Sunidhi Research

PAT Trend



Source: Company, Sunidhi Research

**Change in estimates**

We have raised our rupee dollar exchange rate assumptions for FY14E and FY15E to ₹59.5/US\$ and ₹60.0/US\$ with simultaneous increase in subsidy sharing. Based on H1FY14 numbers we have also raised OVL assumptions which have led to 8.2% and 7.1% jump in FY14E and FY15E consolidated earnings of ONGC.

	FY14E			FY15E		
	Previous	Revised	% Chg.	Previous	Revised	% Chg.
Revenue(₹bn)	1,713.8	1,787.1	4.3	1,820.6	1,914.2	5.1
EBITDA(₹bn)	541.5	573.8	6.0	647.0	684.8	5.8
PAT(₹bn)	233.9	252.9	8.2	294.5	315.5	7.1
Operating metrics						
Crude production(mmt)	26.3	26.5	0.8	27.3	27.3	-
Gas production(bcm)	25.1	25.1	-	25.7	25.7	-
Gross realisation(US\$/bbl)	107.0	108.8	1.7	107.0	106.5	(0.5)
Net realisation(US\$/bbl)	45.1	45.1	0.1	47.8	44.1	(7.9)
Subsidy sharing(₹bn)	501.5	542.8	8.2	496.5	561.3	13.0

Source: Company, Sunidhi Research

Valuations and outlook

Valuations remain attractive, OVL to act as catalyst: Management maintained its guidance for crude production of 27.2mmt and 28.7mmt for FY14E and FY15E and natural gas production of 25.2bcm and 26.5bcm for FY14E and FY15E respectively. During H1FY14 though crude and natural gas production stood at 13.0mmt and 12.4bcm respectively. Management expects crude production jump from its D1 offshore field as well as marginal fields thus nearing to the yearly guidance which we believe is difficult to achieve.

Production guidance	FY13A	FY14E	FY15E
Crude (mmt)			
ONGC (crude+Cond.)	22.56	24.08	24.95
JV	3.57	3.16	3.78
Total – crude	26.13	27.24	28.73
Gas (bcm)			
ONGC	23.55	23.44	25.10
JV	1.79	1.75	1.40
Total - crude	25.34	25.19	26.50
Grand total	51.46	52.43	55.23

Source: Company, Sunidhi Research

We believe OVL production ramp up would be a catalyst for ONGC in medium term since production from 3 projects has started/ restarted. ONGC is available at 9.1x and 7.3x FY14E and FY15E EPS of ₹29.6 and ₹36.9 respectively. Valuations continue to remain attractive and hence we maintain our 'Outperform' with SOTP based target price of ₹355.

SOTP valuation	Total value (₹ bn)	Value/ share	Comments
ONGC standalone	2,270	278.3	9.0x FY15E EPS of ₹36.9
OVL	506	66.7	5.0x FY15E EBITDA of ₹114.2bn
Invst.	78	9.9	30% disc. To CMP
Total value	2,854	355.0	

Source: Company, Sunidhi Research



Valuations Summary

Year End-March (Cons.)	FY11	FY12	FY13	FY14E	FY15E
Per share (₹)					
EPS	26.2	32.9	26.1	29.6	36.9
CEPS	50.4	60.3	53.2	57.4	66.4
BVPS	134.8	159.5	176.2	192.4	213.2
DPS	8.7	9.7	9.5	10.0	13.8
Payout (%)	33.3	29.6	36.4	33.8	37.3
Valuation (x)					
P/E	10.2	8.2	10.3	9.1	7.3
P/BV	2.0	1.7	1.5	1.4	1.3
EV/EBITDA	4.1	3.6	4.2	4.0	3.3
Dividend Yield (%)	3.3	3.6	3.5	3.7	5.1
Return ratio (%)					
EBITDA Margin	43.8	40.7	33.8	32.1	35.8
PAT Margin	18.7	17.0	13.8	14.2	16.5
ROAE	20.8	22.4	15.6	16.0	18.2
ROACE	23.6	24.2	17.9	17.3	20.7
Leverage Ratios (x)					
Long term D/E	0.0	0.0	0.1	0.0	0.0
Net Debt/Equity	(0.1)	(0.1)	0.0	(0.0)	(0.0)
Interest Coverage	81.6	94.8	76.8	83.6	111.5
Current ratio	1.1	1.2	1.2	1.1	1.1
Growth Ratios (%)					
Income growth	18.1	22.6	10.2	10.0	7.1
EBITDA growth	17.1	13.8	(8.3)	4.5	19.3
PAT growth	15.8	11.2	(10.6)	13.3	24.7
Turnover Ratios					
F.A Turnover x	0.7	0.7	0.7	0.7	0.7
Inventory Days					
Debtors Days	26.0	32.6	28.7	22.9	21.9
Payable days	47.4	44.9	41.9	31.5	30.1

Income Statement (₹ bn)

Year End-March	FY11	FY12	FY13	FY14E	FY15E
Revenues	1,201.3	1,473.1	1,623.9	1,787.1	1,914.2
Op. Expenses	675.0	874.2	1,074.9	1,213.2	1,229.3
EBITDA	526.3	598.9	549.0	573.8	684.8
Other Income	37.2	47.9	55.2	62.1	65.3
Depreciation	206.3	234.5	231.9	238.5	252.3
EBIT	357.3	412.3	372.3	397.4	497.9
Interest	4.4	4.3	4.9	4.8	4.5
Prov., Write offs	9.7	(20.0)	18.9	4.0	4.0
PBT	343.1	428.0	348.6	388.7	489.4
Tax	114.9	143.7	127.5	136.1	171.3
PAT	228.2	284.3	221.0	252.5	318.1
Minority	3.7	2.9	(2.3)	(0.4)	2.6
Prior Period Adj.	(0.1)	31.6	0.0	0.0	0.0
Sh. of Associates	0.0	0.0	0.0	0.0	0.0
Ex. ordinary	0.0	0.0	0.0	0.0	0.0
Adj. PAT	224.7	249.8	223.3	252.9	315.5

Source: Company, Sunidhi Research

Balance Sheet (₹ bn)

Year End-March	FY11	FY12	FY13	FY14E	FY15E
Equity and Liabilities					
Share Capital	42.8	42.8	42.8	42.8	42.8
Reserves and Surplus	1,110.5	1,321.6	1,464.4	1,603.5	1,781.4
Total Shareholders funds	1,153.3	1,364.4	1,507.2	1,646.3	1,824.2
Minority Interest	19.9	22.1	19.5	19.1	21.7
Non-Current Liability					
Long Term Borrowings	39.8	52.1	88.4	75.0	65.0
Deferred Tax Liabilities (Net)	111.8	122.0	148.5	148.5	148.5
Long Term Liab./ Provisions	241.6	252.3	269.2	269.7	270.2
Current Liabilities					
Short Term Borrowings	20.8	100.1	116.1	116.1	116.1
Trade Payables	155.9	181.3	186.2	154.1	157.7
Other Current Liabilities	176.6	198.2	171.0	176.0	181.0
Short Term Provisions	11.1	24.0	10.5	111.6	150.1
Grand Total	1,930.7	2,316.5	2,516.5	2,716.3	2,934.4
Assets					
Non Current Assets					
Fixed Assets	266.9	306.1	406.7	503.6	599.6
Net producing properties	571.9	608.0	705.5	774.2	839.4
Expl./ dev. wells-in-progress (Net)	102.4	116.6	136.4	151.1	165.8
Intangible assets	91.7	79.3	84.3	84.3	84.3
CWIP	245.2	380.4	397.4	397.4	397.4
Deferred Tax Assets	0.2	0.2	6.2	6.2	6.2
Non-Current Investments	28.9	20.4	20.5	20.5	20.5
Long Term Loans and Advances	86.9	81.0	88.3	88.3	88.3
Other non-current assets	11.3	29.2	24.7	24.7	24.7
Current Assets					
Current Investments	4.1	8.9	0.8	0.8	0.8
Inventories	85.7	131.6	127.8	112.1	114.7
Trade Receivables	99.7	117.1	154.0	158.8	170.1
Cash and Cash Equivalents	206.2	278.9	196.2	203.4	226.9
Short Term Loans and Advances	40.1	49.3	53.3	53.3	53.3
Other Current Assets	89.5	109.3	132.4	137.4	142.4
Grand Total	1,930.7	2,316.5	2,534.6	2,716.3	2,934.4
Cash flow Statement					
Year End-March	FY11	FY12	FY13	FY14E	FY15E
PBT	343.2	396.4	348.6	388.7	489.4
Depreciation	112.6	129.3	120.4	123.6	134.7
Interest Exp	4.4	4.3	4.9	4.8	4.5
Others	(27.5)	(36.4)	(36.3)	(58.1)	(61.3)
CF before W.cap	432.7	493.7	437.5	458.9	567.2
Inc/dec. in W.cap	230.4	(28.7)	(83.4)	71.4	19.8
Op. CF after W.cap	663.0	465.1	354.1	530.3	587.0
Less Taxes	113.9	140.0	112.1	136.1	171.3
Exceptional & Prior Period Adj.	0.0	0.0	0.0	0.0	0.0
Net CF From Operations	549.1	325.1	242.0	394.2	415.7
Inc/(dec.) in F.A + CWIP	(184.0)	(312.6)	(337.4)	(294.9)	(301.4)
others	59.9	56.5	55.1	62.1	65.3
CF from Invst. Activities	(124.1)	(256.1)	(282.2)	(232.9)	(236.1)
Loan Raised/(repaid)	(2.1)	91.6	52.3	(13.4)	(10.0)
Equity Raised	21.4	0.0	0.0	0.0	0.0
Dividend	(6.4)	(17.1)	(4.3)	(100.1)	(137.6)
Others	(381.4)	(70.7)	(90.5)	(40.6)	(8.5)
CF from Fin Activities	(368.5)	3.8	(42.5)	(154.1)	(156.1)
Net inc /(dec) in cash	56.5	72.7	(82.7)	7.2	23.5
Op. bal of cash	149.7	206.2	278.9	196.2	203.4
Cl. balance of cash	206.2	278.9	196.2	203.4	226.9



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

SUNIDHI SECURITIES & FINANCE LTD

Member: National Stock Exchange (Capital, F&O & Debt Market) & The Stock Exchange, Mumbai

SEBI Registration Numbers: NSE: INB 230676436 BSE: INB 010676436

Maker Chamber IV, 14th Floor, Nariman Point, Mumbai: 400 021

Tel: (+91-22) 6636 9669 Fax: (+91-22) 6631 8637 Web-site: <http://www.sunidhi.com>

Disclaimer: "This Report is published by Sunidhi Securities & Finance Ltd. ("Sunidhi") for private circulation. This report is meant for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. While utmost care has been taken in preparing this report, we claim no responsibility for its accuracy. Recipients should not regard the report as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without any notice and this report is not under any obligation to update or keep current the information contained herein. Past performance is not necessarily indicative of future results. This Report accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this report. Sunidhi and its associated companies, directors, officers and employees may from time to time have a long or short position in the securities mentioned and may sell or buy such securities, or act upon information contained herein prior to the publication thereof. Sunidhi may also provide other financial services to the companies mentioned in this report."