

ONGC

Performance Highlights

Quarterly highlights (Standalone)

Particulars (₹ cr)	3QFY2013	3QFY2012	% chg (yoy)	2QFY2013	% chg (qoq)
Net sales	20,987	18,124	15.8	19,788	6.1
EBITDA	11,342	11,051	2.6	10,369	9.4
EBITDA margin	54.0	61.0	(693)bp	52.4	164bp
Adj. PAT	5,563	3,599	54.6	5,897	(5.7)

Source: Company, Angel Research

For 3QFY2013, Oil and Natural Gas Corporation (ONGC)'s top-line and profitability were higher than our estimates. **We maintain our Buy rating on the stock.**

Top-line rises due to higher volumes and realizations: The company's top-line increased by 15.8% yoy to ₹20,987cr (above our expectation of ₹19,294cr). The net realization for crude oil increased by 6.7% yoy to US\$47.9/bbl and gas realizations increased 10.5% yoy to 8.4/scm. Crude oil sales volumes grew 7.0% yoy to 6mn tonne.

EBITDA decreases on higher subsidy burden: EBITDA margin contracted by 693bp yoy to 54.0% and EBITDA increased by 2.6% yoy to ₹11,342cr, mainly due to higher subsidy burden.

Higher other income lifts PAT: The company's other income grew by 33.7% yoy to ₹1,281cr, which resulted in the adjusted net profit growing by 54.6% yoy to ₹5,563cr (above our expectation of ₹4,843cr).

Outlook and valuation: We remain positive on ONGC from a long-term perspective due to potential reserve accretion from its large exploration and production (E&P) acreage. Further, we expect the government to progressively raise diesel prices during CY2013 and CY2014, which is expected to result in lower subsidy burden for ONGC. Also, a concrete subsidy-sharing formula by the government could make ONGC's cash flows more predictable. The stock is currently trading at an inexpensive valuation of 10.8x FY2013E and 9.0x FY2014E PE. Hence, **we recommend a Buy rating on the stock with a SOTP target price of ₹357.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	117,611	146,371	144,089	158,065
% chg	15.6	24.5	(1.6)	9.7
Net profit	22,456	28,143	24,508	29,397
% chg	15.7	25.3	(12.9)	19.9
OPM (%)	41.2	32.9	32.8	34.7
EPS (₹)	26.2	32.9	28.6	34.4
P/E (x)	11.7	9.4	10.8	9.0
P/BV (x)	2.3	1.9	1.7	1.5
RoE (%)	20.7	24.9	17.0	18.2
RoCE (%)	18.8	20.2	16.9	19.0
EV/Sales (x)	2.1	1.7	1.5	1.3
EV/EBITDA (x)	5.0	5.1	5.3	4.1

Source: Company, Angel Research

BUY

CMP	₹308
Target Price	₹357

Investment Period	12 Months
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Stock Info

Sector	Oil & Gas
Market Cap (₹ cr)	263,851
Net debt (₹ cr)	(12,666)
Beta	0.8
52 Week High / Low	354/240
Avg. Daily Volume	288,002
Face Value (₹)	5
BSE Sensex	19,461
Nifty	5,898
Reuters Code	ONGC.BO
Bloomberg Code	ONGC@IN

Shareholding Pattern (%)

Promoters	69.2
MF / Banks / Indian Fls	11.4
FII / NRIs / OCBs	5.6
Indian Public / Others	13.7

Abs. (%)	3m	1yr	3yr
Sensex	4.2	9.6	20.5
ONGC	20.0	9.6	12.1

Bhavesh Chauhan

Tel: 022 - 3935 7800 Ext: 6821
bhaveshu.chauhan@angelbroking.com

Vinay Rachh

Tel: 022- 39357600 Ext: 6841
vinay.rachh@angelbroking.com

Exhibit 1: 3QFY2013 performance (Standalone)

Particulars (₹ cr)	3QFY2013	3QFY2012	% chg (yoy)	2QFY2013	% chg (qoq)	9MFY2013	9MFY2012	% chg (yoy)
Net sales	20,987	18,124	15.8	19,788	6.1	60,860	56,939	6.9
Total operating expenditure	9,645	7,073	36.4	9,419	2.4	28,019	22,062	27.0
EBITDA	11,342	11,051	2.6	10,369	9.4	32,841	34,877	(5.8)
EBITDA Margin (%)	54.0	61.0		52.4		54.0	61.3	
Other Income	1,281	958	33.7	1,901	(32.6)	4,221	2,931	44.0
Depreciation	4,411	4,532	(2.7)	3,727	18.3	11,337	11,991	(5.5)
Interest	1	2	(34.9)	3	(60.5)	34	12	183.3
Exceptional items	-	3,142		-		-	3,142	
PBT	8,210	10,617	(22.7)	8,539	(3.9)	25,691	28,946	(11.2)
PBT Margin (%)	39.1	58.6		43.2		42.2	50.8	
Total Tax	2,648	3,876	(31.7)	2,643	0.2	8,154	9,467	(13.9)
% of PBT	32.2	36.5		30.9		31.7	32.7	
PAT	5,563	6,741	(17.5)	5,897	(5.7)	17,537	19,478	(10.0)
Adj. PAT	5,563	3,599	54.6	5,897	(5.7)	17,537	16,336	7.4
PAT Margin (%)	26.5	19.9		29.8		28.8	28.7	

Source: Company, Angel Research

Exhibit 2: Crude oil realization trend

(US\$/bbl)	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Gross realization	116	112	122	109	110	110
Subsidy burden	67	77	63	63	63	62
Net realization	45	44	46	47	47	48

Source: Company, Angel Research

Exhibit 3: Sales volumes (crude oil)

(mn tonnes)	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Crude oil- ONGC	5.00	4.89	5.78	4.78	4.71	4.91
Crude oil-JVs	0.81	0.74	0.81	1.11	1.53	1.12
Total Crude oil	5.81	5.64	6.59	5.90	5.86	6.04

Source: Company, Angel Research

Exhibit 4: Sales volumes (Gas)

(bcm)	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Gas- ONGC	4.54	4.53	6.03	4.68	4.65	4.63
Gas- JVs	0.51	0.49	0.53	0.44	0.40	0.38
Total Gas	5.05	5.02	6.56	5.12	5.06	5.02

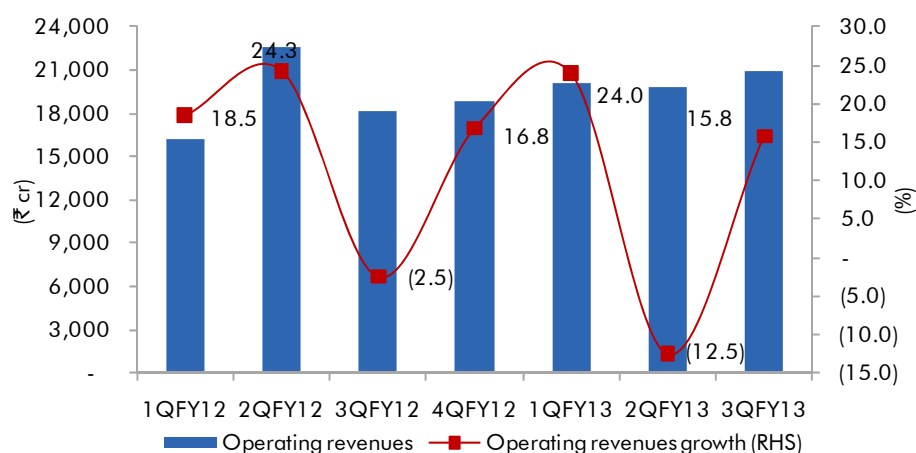
Source: Company, Angel Research

Exhibit 5: 3QFY2013 Actual vs Estimates

(₹ cr)	Actual	Estimates	Variation (%)
Total operating income	20,987	19,294	8.8
EBITDA	11,342	9,936	14.1
EBITDA Margin (%)	54.0	51.5	254bp
PAT	5,563	4,843	14.9

Source: Company, Angel Research

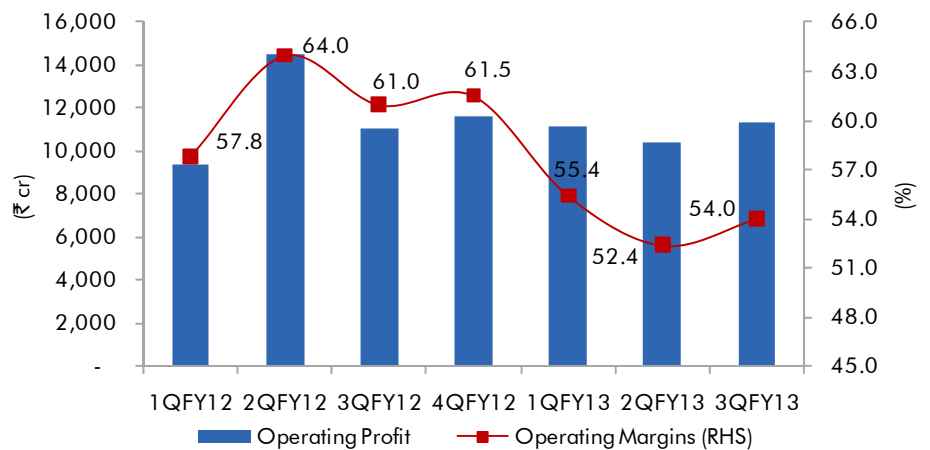
Top-line rises due to higher volumes and realisations: ONGC reported better-than-expected 3QFY2013 results. The company's top-line increased by 15.8% yoy to ₹20,987cr (above our expectation of ₹19,294cr). ONGC's crude oil net realization increased by 6.7% yoy to US\$47.9/bbl and gas realisations increased 10.5% yoy to 8.4/scm due to INR depreciation against the USD. Crude oil sales volume grew 7.0% yoy to 6mn tonne while gas sales volumes remained flat yoy at 5bcm. The company shared a subsidy burden of ₹12,433cr in 3QFY2013.

Exhibit 6: Operating revenue growth trend


Source: Company, Angel Research

EBITDA decreases on higher subsidy burden: EBITDA margin contracted by 693bp yoy to 54.0% and EBITDA increased by 2.6% yoy to ₹11,342cr mainly due to higher subsidy burden.

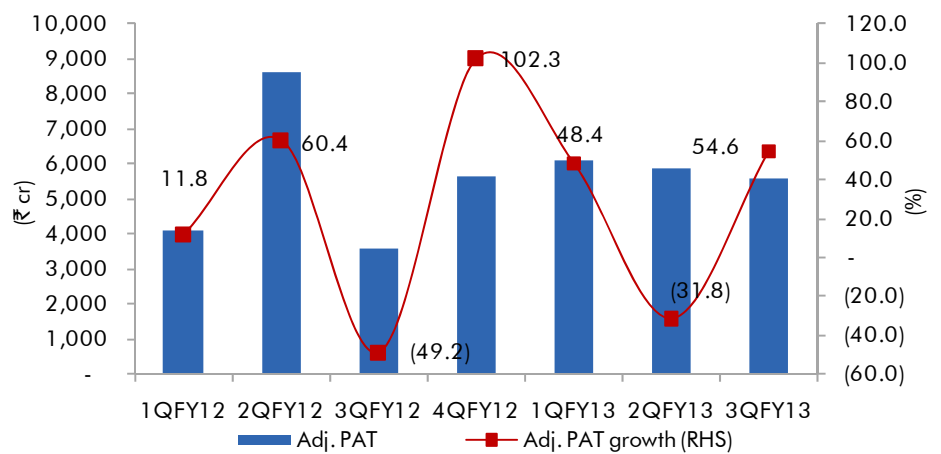
Exhibit 7: Operating performance trend



Source: Company, Angel Research

Higher other income boosts PAT: The company's other income grew by 33.7% yoy to ₹1,281cr which resulted in adjusted net profit growing by 54.6% yoy to ₹5,563cr (above our expectation of ₹4,843cr)

Exhibit 8: PAT growth trend



Source: Company, Angel Research

Investment argument

Gas volumes expected to boost valuation: ONGC aims to increase gas production from North Tapti, B193 and 28 cluster, B22 cluster WO series cluster, B46 cluster, cluster 7 and B series. The company aims to increase its production to 27bcm in FY2013 from 23bcm in FY2011. As far as oil is concerned, ONGC's existing oil fields have matured. Thus, production from these fields is declining. Nevertheless, the Management expects incremental oil production from marginal fields (including D1 extension), which will help arrest the decline in crude production.

OVL's volume story intact: ONGC Videsh Ltd (OVL)'s production has increased steadily from 8.0mtoe in FY2007 to 9.5mtoe in FY2011. Going forward, we expect a robust volume growth from OVL, which aims to increase its production at a CAGR of 7.0% during FY2012-14 with incremental productions from Myanmar, Sakhalin-1 and Venezuela coming on stream. Moreover, any increase in crude oil or gas price would improve OVL's margins, as it does not share under-recoveries.

Diesel price hike could re-rate the stock: The government has recently indicated a staggered diesel price hike during CY2013-14 in order to lower under-recoveries. We expect Oil Marketing Companies to undertake small price hikes (₹0.30-0.40/litre) progressively over the coming two years which is expected to lower under-recoveries significantly by FY2015. The lower subsidy burden could result in earnings growth of 20-30% for ONGC during FY2015. Diesel price hikes could re-rate the stock gradually in our view.

Outlook and valuation

We remain positive on ONGC from a long-term perspective due to potential reserve accretion from its large exploration and production (E&P) acreage. Further, we expect government to progressively raise diesel prices during CY2013 and CY2014, which is expected to result in lower subsidy burden on ONGC. Also, a concrete subsidy-sharing formula by the government could make ONGC's cash flows more predictable. The stock is currently trading at inexpensive valuations of 10.8x FY2013 and 9.0x FY2014E PE. Hence, **we recommend a Buy rating on the stock with a SOTP target price of ₹357.**

Exhibit 9: SOTP valuation

Particulars (₹ cr)	₹/share
ONGC Standalone(DCF)	244
OVL(Oil- EV/boe \$14x Gas Ev/Boe \$5x)	52
Investment Value(80% mkt Value)	17
Total EV	313
Net debt	(44)
Equity value (₹)	357

Source: Company, Angel Research

Exhibit 10: Key assumptions (Standalone)

Particulars	FY2013E	FY2014E
Sale of crude oil (MMT)	23.0	23.0
Net realisations (US\$/bbl)	45.7	52.4

Source: Company, Angel Research

Exhibit 11: Angel EPS forecast vs consensus (Consolidated)

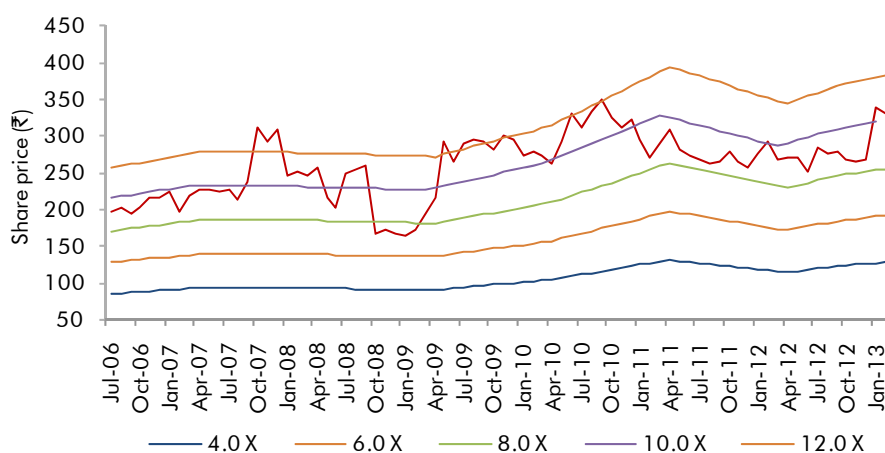
	Angel Forecast	Bloomberg Consensus	Variation (%)
FY2013E	28.6	29.87	(4.1)
FY2014E	34.4	34.45	(0.3)

Source: Company, Angel Research

Exhibit 12: Recommendation summary

Company	CMP (₹)	TP (₹)	Reco.	Mcap (₹ cr)	Upside (%)	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
ONGC	308	357	Buy	2,63,851	16	10.8	9.0	1.7	1.5	5.3	4.1	17.0	18.2	16.9	19.0
RIL	868	-	Neutral	2,81,167	-	12.8	12.1	1.4	1.2	8.2	7.4	12.4	11.8	8.6	8.9
GAIL	335	-	Neutral	42,557	-	9.9	9.5	1.7	1.5	5.3	4.3	18.5	16.8	19.8	18.1
CAIRN	316	383	Buy	60,741	21	5.2	5.7	1.0	0.9	3.4	3.1	21.9	17.0	21.3	16.6

Source: Angel Research

Exhibit 13: One-year forward P/E


Source: Company, Angel Research

Company background

ONGC is the third largest oil and gas exploration and production company in the world and ranks 23rd among leading global energy majors. Its primary business includes exploration, development and production of crude oil, natural gas, LPG and other value-added petroleum products. ONGC has 2P reserves of 1,025mtoe of hydrocarbon reserves, indicating a reserve life of 17 years. The company has also set up a subsidiary, OVL, for overseas oil exploration and production. OVL has 2P reserves of 199mtoe indicating a reserve life of 21 years.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
Total operating income	104,588	101,755	117,611	146,371	144,089	158,065
% chg	8.1	(2.7)	15.6	24.5	(1.6)	9.7
Total Expenditure	61,364	56,805	69,174	99,123	96,813	103,275
Net Raw Materials	28,975	25,339	31,251	46,323	45,244	48,263
Other Mfg costs	17,678	16,321	19,685	33,648	32,864	35,057
Personnel	1,162	1,407	1,716	1,696	1,656	1,767
Other	13,549	13,738	16,523	17,457	17,050	18,188
EBITDA	43,225	44,949	48,436	48,183	47,276	54,790
% chg	4.8	4.0	7.8	(0.5)	(1.9)	15.9
(% of Net Sales)	41.3	44.2	41.2	32.9	32.8	34.7
Depreciation & Amortization	15,430	18,719	20,628	12,912	13,923	14,460
EBIT	27,794	26,230	27,808	35,272	33,353	40,330
% chg	1.6	(5.6)	6.0	26.8	(5.4)	20.9
(% of Net Sales)	26.6	25.8	23.6	24.1	23.1	25.5
Interest & other Charges	1,774	1,102	437	435	680	682
Other Income	5,072	5,273	6,946	4,826	4,586	5,044
(% of PBT)	16.3	17.3	20.2	12.2	12.3	11.3
Recurring PBT	31,093	30,401	34,316	39,663	37,258	44,693
% chg	0.3	(2.2)	12.9	15.6	(6.1)	20.0
Adj. related to prior period	(11)	(40)	-	-	-	-
Extraordinary Expense/(Inc.)	(66)	-	-	(3,141)	-	-
PBT (reported)	31,169	30,441	34,316	42,803	37,258	44,693
Tax	11,009	10,714	11,491	14,375	12,513	15,009
(% of PBT)	35.3	35.2	33.5	33.6	33.6	33.6
PAT (reported)	20,160	19,728	22,825	28,428	24,746	29,683
Add: Share from asso.	9.9	7.8	3.0	(1.1)	9.8	10.8
Less: Minority interest (MI)	375	332	372	284	247	297
PAT after MI (reported)	19,795	19,404	22,456	28,143	24,508	29,397
ADJ. PAT	19,861	19,404	22,456	31,284	24,508	29,397
% chg	(0.1)	(2.3)	15.7	39.3	(21.7)	19.9
(% of Net Sales)	19.0	19.1	19.1	21.4	17.0	18.6
Basic EPS (₹)	23.1	22.7	26.2	32.9	28.6	34.4
Fully Diluted EPS (₹)	23.1	22.7	26.2	32.9	28.6	34.4
% chg	(0.4)	(2.0)	15.7	25.3	(12.9)	19.9

Balance Sheet (Consolidated)

Y/E March	FY09	FY10	FY11	FY12	FY13E	FY14E
SOURCES OF FUNDS						
Equity Share Capital	2,139	2,139	4,278	4,278	4,278	4,278
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	90,085	99,268	111,049	132,161	147,258	166,389
Shareholders' Funds	92,224	101,407	115,327	136,439	151,536	170,667
Minority Interest	1,411	1,643	1,989	2,208	2,446	2,732
Total Loans	6,559	6,267	6,061	15,223	10,862	10,862
Deferred Tax Liability	9,223	10,291	11,176	12,204	12,204	12,204
Other Long Term Liabilities	-	-	973	1,080	1,080	1,080
Long Term Provisions	-	-	23,185	24,149	24,149	24,149
Total Liabilities	126,562	137,067	158,713	191,303	202,276	221,693
APPLICATION OF FUNDS						
Gross Block	169,748	193,300	166,132	180,674	205,674	230,674
Less: Acc. Depreciation	105,955	117,757	82,077	89,129	103,052	117,512
Net Block	63,794	75,543	84,055	91,545	102,622	113,162
Capital Work-in-Progress	24,758	25,616	34,760	49,698	29,283	29,284
Goodwill	11,404	9,539	8,993	7,798	7,798	7,798
Investments	3,480	5,159	3,100	2,921	2,921	2,921
Deferred tax assets	-	-	24	19	19	19
Long term loans and adv.	-	-	8,688	8,103	8,103	8,103
Site Restoration fund deposit	-	-	8,126	9,475	9,475	9,475
Other non-current assets	-	-	1,130	2,920	2,920	2,920
Current Assets	50,715	50,566	44,193	59,190	80,712	90,835
Cash	22,596	22,384	20,816	27,890	48,884	58,469
Loans & Advances	13,264	12,057	4,012	4,931	4,931	4,931
Other	14,855	16,125	19,365	26,370	26,897	27,435
Current liabilities	28,239	30,198	34,356	40,347	41,558	42,804
Net Current Assets	22,476	20,369	9,837	18,843	39,155	48,030
Mis. Exp. not written off	651	841	-	-	-	-
Total Assets	126,562	137,067	158,713	191,303	202,276	221,693

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
Profit before tax	31,093	30,441	34,313	42,804	37,258	44,693
Depreciation	8,779	8,863	11,353	12,919	13,923	14,460
(Incr)/ Decr in Misc Exp	1	(264)	-	-	-	-
Change in Working Capital	2,355	(473)	(14,168)	(7,050)	683	709
Less: Other income	-	-	(2,593)	(7,072)	(4,586)	(5,044)
Others	(3,238)	(2,300)	30,696	17,034	-	-
Direct taxes paid	(10,244)	(7,748)	(10,517)	(11,881)	(12,513)	(15,009)
Cash Flow from Operations	28,746	28,783	49,085	46,754	34,766	39,808
(Inc.)/ Dec. in Fixed Assets	(21,639)	(21,253)	(19,704)	(39,176)	(4,585)	(25,001)
(Inc.)/ Dec. in Investments	902	(2,249)	(4,347)	179	-	-
(Inc.)/ Dec. in loans and adv.	(1,951)	532	(798)	(15)	-	-
Other income	-	-	-	-	4,586	5,044
Others	3,365	1,868	(7,360)	10	-	-
Cash Flow from Investing	(19,323)	(21,102)	(32,209)	(39,002)	1	(19,957)
Issue of Equity	-	287	-	-	-	-
Inc./(Dec.) in loans	4,968	(304)	40	3,191	(4,361)	-
Dividend Paid (Incl. Tax)	(8,103)	(8,078)	(11,789)	(8,521)	(9,411)	(10,267)
Others	(8,748)	109	80	5,432	-	-
Cash Flow from Financing	(11,883)	(8,273)	(11,670)	102	(13,772)	(10,267)
Inc./(Dec.) in Cash	(2,460)	(592)	5,206	7,854	21,013	9,584
Opening Cash balances	25,056	22,588	14,722	20,017	27,872	48,884
Closing Cash balances	22,596	21,997	20,017	27,872	48,884	58,469

Key Ratios

Y/E March	FY09	FY10	FY11	FY12	FY13E	FY14E
Valuation Ratio (x)						
P/E (on FDEPS)	13.3	13.6	11.7	9.4	10.8	9.0
P/CEPS	7.5	6.9	6.1	6.4	6.9	6.0
P/BV	2.9	2.6	2.3	1.9	1.7	1.5
Dividend yield (%)	2.6	2.7	2.8	2.9	3.2	3.6
EV/Sales	2.3	2.4	2.1	1.7	1.5	1.3
EV/EBITDA	5.4	5.4	5.0	5.1	5.3	4.1
EV/Total Assets	1.9	1.8	1.5	1.3	1.2	1.0
Per Share Data (₹)						
EPS (Basic)	23.1	22.7	26.2	32.9	28.6	34.4
EPS (fully diluted)	23.1	22.7	26.2	32.9	28.6	34.4
Cash EPS	41.2	44.6	50.4	48.0	44.9	51.3
DPS	8.0	8.3	8.5	9.0	10.0	11.0
Book Value	108	119	135	159	177	199
Dupont Analysis (%)						
EBIT margin	26.6	25.8	23.6	24.1	23.1	25.5
Tax retention ratio	64.7	64.8	66.5	66.4	66.4	66.4
Asset turnover (x)	1.2	0.9	0.9	1.0	0.9	1.0
ROIC (Post-tax)	19.9	15.5	14.6	15.5	14.0	16.9
Operating ROE	19.9	15.5	14.6	15.5	14.0	16.9
Returns (%)						
ROCE (Pre-tax)	24.3	19.9	18.8	20.2	16.9	19.0
Angel ROIC (Pre-tax)	39.3	31.2	28.9	32.5	28.0	31.3
ROE	23.3	20.0	20.7	24.9	17.0	18.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.7	0.6	0.7	0.8	0.7	0.7
Inventory / Sales (days)	24	27	28	29	29	29
Receivables (days)	25	26	27	27	28	28
Payables (days)	109	137	134	131	132	132
WC cycle (ex-cash) (days)	(2)	(4)	(20)	(25)	(24)	(23)
Solvency ratios (x)						
Net debt to equity	(0.2)	(0.2)	(0.2)	(0.1)	(0.3)	(0.3)
Net debt to EBITDA	(0.5)	(0.5)	(0.4)	(0.3)	(0.9)	(0.9)
Interest Coverage (EBIT/Int.)	15.7	23.8	63.6	81.1	49.0	59.1

Research Team Tel: 022 – 3935 7800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

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Disclosure of Interest Statement

	ONGC
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)