

BSE Sensex 19,461	S&P CNX 5,898
Bloomberg	ONGC IN
Equity Shares (m)	8,555.5
M.Cap. (INR b)/(USD b)	2,639/49.0
52-Week Range (INR)	354/240
1,6,12 Rel. Perf. (%)	7/-1/0

Financials & Valuation (INR b)

Y/E March	2013E	2014E	2015E
Sales	1,577	1,690	1,902
EBITDA	533	607	790
Adj. PAT	251	276	385
Adj. EPS (INR)	29.2	31.7	44.4
EPS Gr. (%)	(4.5)	9.8	39.6
BV/Sh.(INR)	177	197	225
RoE (%)	17.3	17.0	21.1
RoCE (%)	16.3	16.2	20.0
Payout (%)	40.1	36.8	36.8

Valuations

P/E (x)	10.6	9.7	6.9
P/BV (x)	1.7	1.6	1.4
EV/EBITDA (x)	4.5	3.8	2.8
Div. Yield (%)	3.2	3.2	4.5

CMP: INR308
TP: INR402
Buy

- ONGC reported net sales at INR210b (v/s est of INR199b, adj. for subsidy), EBITDA at INR112b (v/s est of INR103b, adj. for subsidy), and PAT at INR56b (v/s est of INR52b, adj. for subsidy), up 20% YoY and down 6% QoQ.
- Reported numbers were above estimates primarily due to (a) higher standalone oil sales at 4.9mmt (v/s est 4.7mmt) due to reduction in BS&W (basin sediments and water) content and (b) higher VAP realizations.
- 3QFY13 gross realization stood at USD110/bbl (flat QoQ and v/s USD111.7/bbl in 3QFY12). Subsidy was below estimate at USD62.2/bbl (v/s est of USD64.4/bbl; USD63 in 2QFY13 and USD66.8 in 3QFY12), lower by ~USD2/bbl than our estimate, primarily due to higher oil sales (used in denominator to calculate per bbl subsidy) and resulting in higher net realization at USD48/bbl (v/s USD46.8/bbl in 2QFY13 and USD45 in 3QFY12). Subsidy sharing for the quarter in absolute terms stood at INR124.3b, largely flat on a YoY and QoQ basis.
- D,D&A at INR44b was marginally higher, while other income was marginally lower than estimate at INR14b (est INR15b).
- **FY14 oil production guidance higher than our estimate:** ONGC expects FY14 domestic oil production at 29.1mmt (standalone: 25.8 and JV: 3.3) and gas production at 26.5bcm (standalone: 24.6 and JV: 1.8) v/s our estimate of domestic oil production at 28.1mmt and gas production at 26.6bcm.
- **Upstream sharing in 9MFY13 at 36%; we model 40% in FY13:** ONGC's 3QFY13 subsidy stood at INR124b and its share in upstream stood at 82.4% (v/s 82% in 9MFY13 and 80.8% in FY12). With FY13E under-recoveries at >INR1.6t (v/s INR1.4t in FY12) and given the precarious government financials, we believe FY13 upstream will be higher and model upstream subsidy sharing at 40%.

Valuation and view: We estimate gas price of USD7/mmbtu from FY15E for ONGC. Also, in line with the announced reforms, we model a diesel price hike of INR0.45/lit/month and thus estimate a 30% and 50% reduction in under-recoveries in FY14E and FY15E respectively from the FY13 base. However, we have conservatively assumed a higher upstream sharing of 50%/60% in FY14E/15E to compensate for increased earnings. The stock trades at 9.7x FY14E EPS of INR31.7. Our SOTP-based target price for ONGC stands at INR402/sh. **Buy.**

Quarterly performance (Standalone)

Y/E March	(INR Billion)											
	FY12				FY13				FY12	FY13E	FY13	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3Q*	Est.
Net Sales	162.0	226.2	181.2	188.2	200.8	197.9	209.9	164.3	757.6	772.9	198.8	5.6%
Change (%)	18.5	24.3	-2.5	22.2	24.0	-12.5	15.8	-12.7	15.1	2.0	9.7	
EBITDA	92.7	141.6	106.6	110.6	110.4	102.7	112.4	74.7	451.4	400.1	103.3	8.8%
% of Net Sales	57.2	62.6	58.8	58.8	55.0	51.9	53.5	45.5	59.6	51.8	52.0	
D,D & A	41.2	32.8	45.3	49.1	32.0	37.3	44.1	49.4	168.4	162.8	43.4	1.5%
Interest	0.0	0.1	0.0	0.2	0.3	0.0	0.0	0.7	0.3	1.0	0.2	
Other Income	9.3	14.4	44.9	15.1	11.3	20.0	13.9	15.7	83.8	60.9	15.0	-7.6%
PBT	60.7	123.2	106.2	76.4	89.4	85.4	82.1	40.3	366.5	297.2	74.6	10.0%
Tax	19.8	36.7	38.7	20.0	28.6	26.4	26.5	12.8	115.2	94.4	23.0	
Rate (%)	32.5	29.8	36.5	26.1	32.0	30.9	32.2	31.9	31.4	31.8	30.8	
PAT	40.9	86.4	67.4	56.5	60.8	59.0	55.6	27.5	251.3	202.8	51.7	7.7%
Adjusted PAT	40.9	86.4	46.4	56.4	60.8	59.0	55.6	27.5	230.2	202.8	51.7	7.7%
Change (%)	11.8	60.4	-20.2	119.4	48.4	-31.8	20.0	-51.4	32.0	-11.9	11.4	

E: MOSL Estimates; * Adjusted for actual subsidy

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Investors are advised to refer through disclosures made at the end of the Research Report.

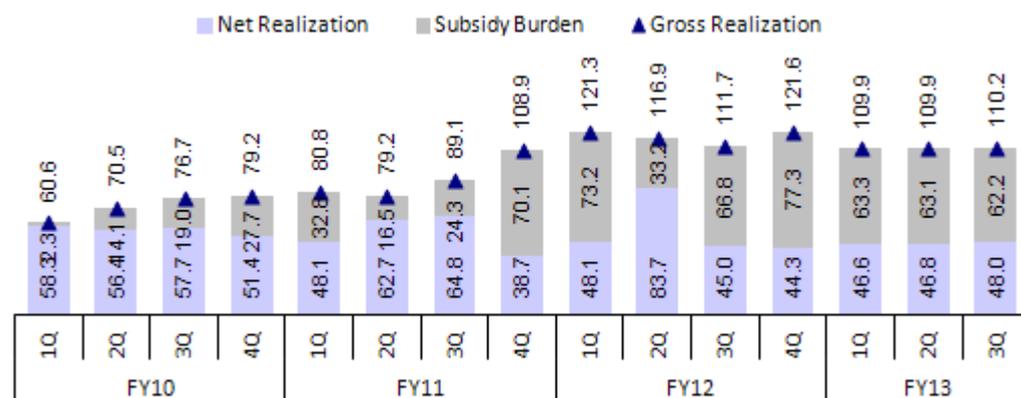
ONGC: Quarterly performance snapshot (INR b)

	3Q FY12	2Q FY13	3Q FY13	YoY Chg (%)	QoQ Chg (%)	Comments
Oil	122.3	132.5	142.5	16.5	7.6	Oil Sales were higher both YoY and QoQ due to reduction in B, S & W (basin sediments and water) content
Gas	38.0	43.8	42.0	10.5	-4.3	YoY jump is due to rupee depreciation from 51.0 to 54.2
VAP and others	20.9	21.6	25.4	21.2	17.8	Higher VAP realisations
Net sales	181.2	197.9	209.9	15.8	6.1	
RM & purchases	1.5	1.2	1.6	2.6	33.6	
Staff Cost	3.4	5.4	3.5	2.7	-36.5	One-off provisioning during 2QFY13
Statutory levies	38.7	55.9	57.1	47.5	2.2	Increase led by Rajasthan JV block royalty
Other Expenditure	31.1	32.7	35.4	13.9	8.2	
Total Expenditure	74.7	95.2	97.5	30.6	2.5	
EBITDA	106.6	102.7	112.4	5.4	9.4	
Interest	0.0	0.0	0.0	-34.9	-60.5	
D, D & A	45.3	37.3	44.1	-2.7	18.3	Higher due to higher depletion and also some capitalisation at Bombay High
Other Income	44.9	20.0	13.9	-69.1	-30.6	Other income was lower QoQ as there was a INR3.6b one-time gain of provision reversal during 2QFY13
Profit before tax	106.2	85.4	82.1	-22.7	-3.9	
Total tax	38.7	26.4	26.5	-31.7	0.2	
Adj. Net Profit	67.4	59.0	55.6	-17.5	-5.7	
Effective tax rate (%)	36.5	30.9	32.2	-11.6	4.2	"Tax rate was higher in 3QFY12 led by difference between taxable & accounting profit as company get higher deduction on R&D expenses"

Source: Company, MOSL

3QFY13 subsidy payout of INR124b; net realization at USD48/bbl

- ONGC's subsidy payout stood at INR124b (v/s INR125b in 3QFY12 and INR123b in 2QFY13). Its share stood at 82% of overall upstream share.
- Gross realization in 3QFY13 was at USD110.1/bbl, while the subsidy payout was at USD62.2/bbl resulting in net realization of USD48.0/bbl, up 7% YoY and 3% QoQ.
- We model upstream subsidy sharing at 40% for full year FY13, 50% in FY14 and 60% in FY15.

ONGC: 3QFY13 Net realization at USD48.0/bbl (USD/bbl)

Source: Company, MOSL

3QFY13 subsidy at INR124b; upstream sharing at ~36% for 9MFY13 (INRb)



Source: Company, MOSL

We model upstream sharing at 40%/50%/60% in FY13/FY14/FY15 (INR b)

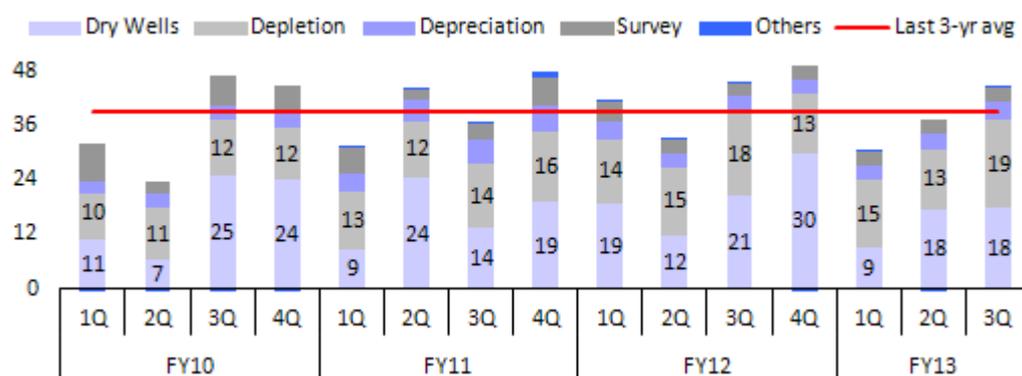
	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
Fx Rate (INR/USD)	40.3	46.0	47.5	45.6	47.9	54.4	53.0	53.0
Brent (USD/bbl)	82	85	70	86	114	111	110	110
Product Sales (mmt)	76	83	91	96	100	105	104	109
Gross Under recoveries (INR b)								
Petrol	73	52	52	27	0	0	0	0
Diesel	353	523	93	348	819	915	443	153
Kerosene	191	282	174	200	278	305	280	269
LPG	156	176	143	205	284	415	387	443
Total	773	1,033	461	780	1,385	1,634	1,110	864
Gross Under recoveries Sharing (%)								
Government	46	69	56	53	60	60	50	35
Upstream	33	32	31	39	40	40	50	60
SA Refiners	0	0	0	0	0	0	0	0
OMC's	21	(1)	12	9	0	0	0	5
Total	100	100	100	100	100	100	100	100

Source: Company, MOSL

D,D&A in-line; trend is normally on the higher side in 2HFY13 of the year

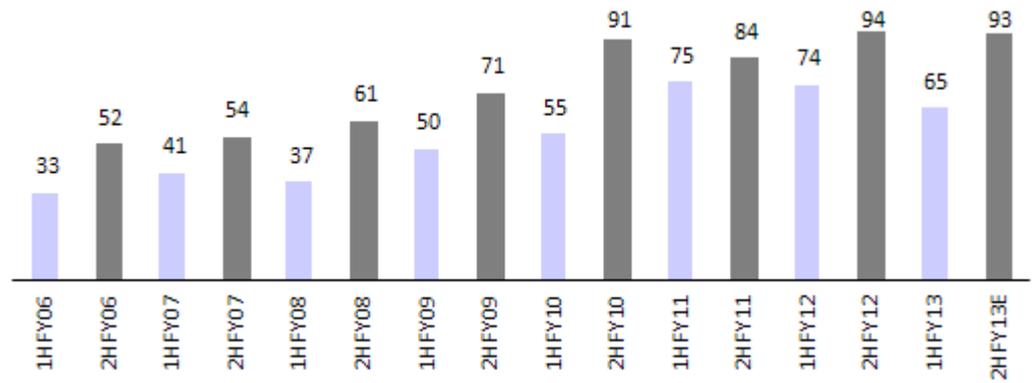
- ONGC's D,D&A expenses in 3QFY13 stood at INR44b (v/s est. of INR43b); down 3% YoY and up 18% QoQ. QoQ increase is largely driven higher dry well expenses.
- Historically it has been observed that the D,D&A charges are normally higher during second half of the year as ONGC typically charges the well write-offs at the end of the year when it reviews its exploration performance.

D,D&A expenses was in line at INR44b)



Source: Company, MOSL

D,D&A charge has been typically higher in 2H as against 1H in recent years (INR b)



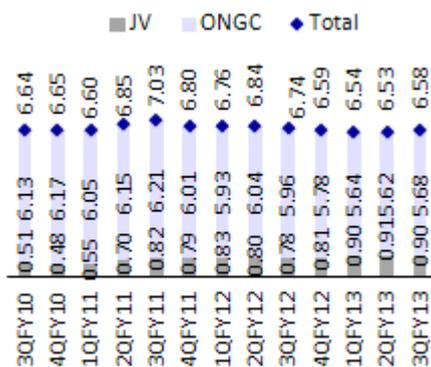
*Survey expenses assumed

Source: Company, MOSL

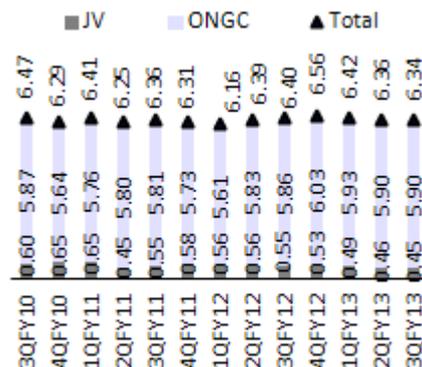
3QFY13 operational and other key highlights

- Oil production (excl. JV) stood at 5.68mmt (-5.8% YoY, +1.2% QoQ); sales (excl. JV) were at 4.91mmt (-1.7% YoY, +4.3% QoQ).
- Gas production (excl. JV) stood at 5.9bcm (+1.3% YoY, flat QoQ); sales (excl. JV) were at 4.66bcm (+2.3% YoY, -0.5% QoQ).
- JV oil production was 0.90mmt (+15.5% YoY, -1.2% QoQ) led by Rajasthan production ramp-up, while JV gas production was 0.45bcm (-18.3% YoY, -3.3% QoQ) hit by lower gas production at PMT fields.

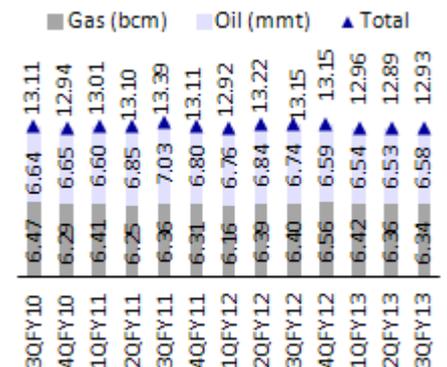
Oil standalone (excl. JV) production down 6% YoY (mmt)



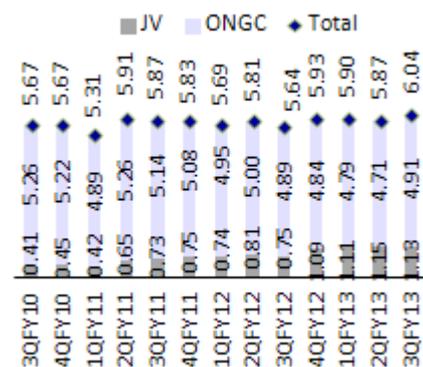
Gas (incl. JV) production largely flat YoY and QoQ (bcm)



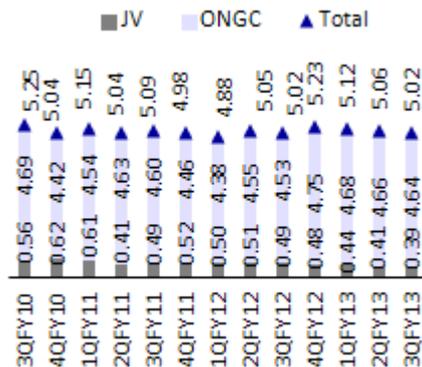
Rajasthan oil lowers YoY de-growth to 2% (mmtoe)



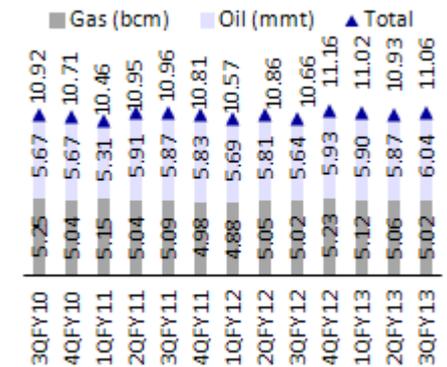
Oil sales up 7% YoY led by B,S&W reduction (mmt)



Gas sales volumes were flat YoY (bcm)



Overall sales improved YoY and QoQ (mmtoe)



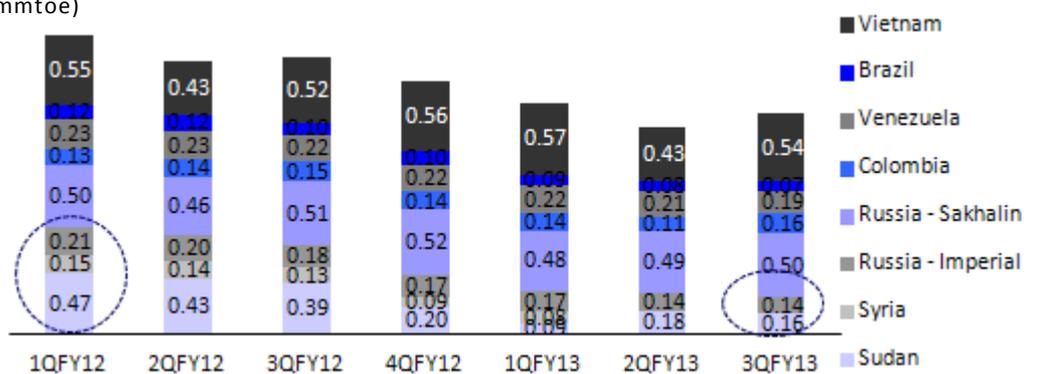
Source: Company, MOSL

Update on OVL

- In 9MFY13, OVL production stood at 5.4mmtoe (7.2mmtoe annualized v/s 8.8mmtoe in FY12).
- OVL's production is impacted by lower production in Sudan and Syria (geo-political tensions) and Imperial Energy in Russia. ONGC has stopped recognizing any production from Syria due to ongoing conflict in the country. Management hinted that full production might resume in Sudan in next 2 ½ months.
- The recently announced USD1b Azerbaijan acquisition is likely to be finalized by March-13 and if completed in expected time then the full year production would be accounted in FY13.

ONGC Videsh production headwinds: Production has been impacted by Syria, Sudan and Imperial

(mmtoe)



Source: Company, MOSL

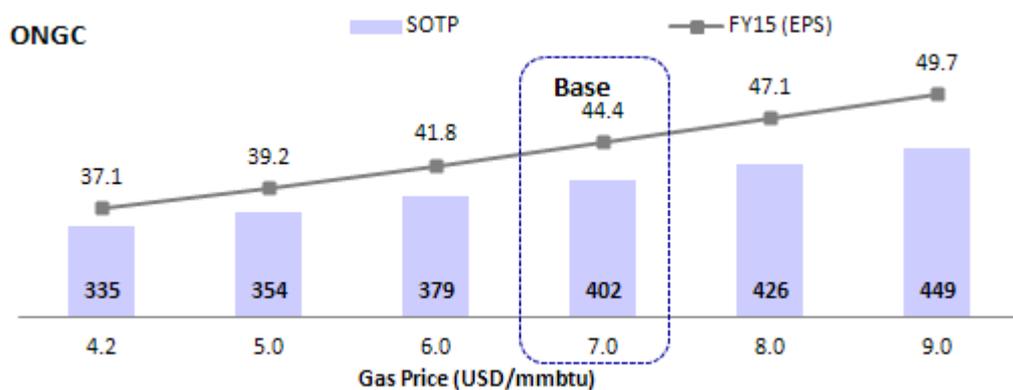
Valuation and view

- We model gas price of USD 7/mmbtu from FY15 onwards for ONGC. Also, in-line with the announced reforms, we model a diesel price hike of INR 0.45/lt/month and thus estimate a 30% and 50% reduction in under recoveries in FY14 and FY15, respectively, from the FY13 base. However, conservatively we have assumed a higher upstream sharing of 50%/60% in FY14/15 to compensate for increased earnings.
- Key things to watch are (1) gas price hike; (2) implementation of diesel reforms announced by the government; (3) clarity on Sudan and Syria production for OVL, (4) subsidy sharing and (5) visibility on production growth.
- After a flat production trend, we believe ONGC is again set for a growth phase and expect ONGC group to post production CAGR of 3.3% in FY12-15E, led by completion of IOR/EOR and marginal/new field development in next 2 years. If we assume the contribution from OVL's recently-announced acquisitions, then the ONGC group production CAGR rises from 3.3% to 4.7% in FY12-15E period.
- We model Brent oil price of USD110/bbl in FY13/FY14/FY15 and USD95/bbl in long term. ONGC currently trades at ~40% discount to its global peers on EV/BOE (1P basis) and timely execution of diesel reforms and gas price hike could lead to stock's re-rating. Implied dividend yield of FY12 dividend stands at ~4%. The stock trades at 9.7x FY14 EPS of INR31.7. Our SOTP-based target price for ONGC stands at INR402/sh. **Buy.**

ONGC: Key assumptions (INR m)

Y/E March	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
Exchange Rate (INR/USD)	40.2	45.8	47.5	45.7	47.9	54.4	53.0	53.0
APM Gas Price (USD/mmbtu)	2.3	2.0	1.9	3.9	4.2	4.2	4.2	7.0
Brent crude price (USD/bbl)	82.3	84.8	69.7	86.5	114.5	110.6	110.0	110.0
Production Details (mmtoe)								
Domestic Oil Production (mmt)	27.9	27.1	26.5	27.3	26.9	26.7	28.1	30.1
Domestic Gas Production (bcm)	25.1	25.4	25.6	25.3	25.5	25.6	26.6	28.1
Domestic Production (mmtoe)	53.1	52.6	52.1	52.6	52.4	52.3	54.7	58.3
OVL Production (mmtoe)	8.8	8.8	8.9	9.4	8.8	6.9	7.4	9.0
Group Production (mmtoe)	61.9	61.3	60.9	62.1	61.2	59.2	62.1	67.3
Subsidy Sharing (INRb)	220	282	116	249	445	532	455	425
Oil Price Realization (USD/bbl)								
Gross	85.5	88.0	71.7	89.4	117.4	110.9	111.7	112.1
Upstream Discount	32.6	39.1	15.7	35.6	62.7	67.9	56.8	49.5
Net	52.9	49.0	56.0	53.8	54.7	43.0	54.9	62.6
Cons EPS Break-up (INR/sh)								
EPS (Standalone)	19.5	18.9	19.6	20.4	26.8	19.6	21.9	33.5
EPS (OVL)	2.8	3.3	2.4	3.0	3.2	4.2	4.6	6.2
EPS (MRPL, Cairn & Others)	0.9	0.9	0.6	1.1	0.4	5.3	5.2	4.8
EPS (Consolidated)	23.2	23.1	22.7	24.5	30.4	29.2	31.7	44.4

Source: Company, MOSL

Earnings (FY15 Cons. EPS) and Fair Value Sensitivity to Gas Price Hike

Source: Company, MOSL

Valuation summary

	USD b	INR b	INR/sh	Valuation method
ONGC Domestic	39	2,079	243	DCF Based, WACC of 11.9%
OVL	16	847	99	2P reserves @ USD5.4/boe (same as ONGC)
Cairn India	2	132	15	DCF based
Net (Debt) / Cash	4	227	27	Cons. net debt
Listed Investments	3	156	18	MRPL, IOC, GAIL & Petronet LNG; 25% discount to our target/market price
Target Price	65	3,442	402	

*We do not factor in the contribution from the recent OVL acquisitions

Source: MOSL

ONGC: an investment profile

Company description

ONGC, a Fortune 500 company, is an eminent exploration and production (E&P) company in India. With over 300 discoveries, it has established in-place reserves of 6.9b ton of oil equivalent (btoe), with ultimate reserves of 2.4btoe. It currently accounts for ~68% of India's domestic oil and gas production. Through its 100% subsidiary ONGC Videsh Limited (OVL), it has equity investments in E&P blocks in 16 countries. Downstream presence is marked through its subsidiary (71.6% stake), MRPL.

Key investment arguments

- **Diesel reforms to lead to significant cut in under recoveries:** Recently announced diesel reforms (a) increasing diesel prices by INR 0.40-0.50/ltr every month and (b) Market pricing for bulk buyers; would lead to a significant cut in under recoveries (50% reduction in under recoveries in FY15 over FY13).
- **Gas price hike would be a key trigger:** Rangarajan committee in its report has proposed a implied gas price of ~USD8/mmbtu for domestically produced gas. Oil Ministry has already moved a Cabinet note for accepting the recommendations of the committee.
- **Large NELP acreage to provide long-term growth:** ONGC has more than 50 % of the total NELP exploration acreage allotted. Of this, around 66% acreage is in high potential deep water. As bulk of this acreage is yet to be explored, we believe there is huge potential for hydrocarbon discoveries. ONGC has met with initial success in the KG block - the country's and its first ultra -deep water discovery

UD-1. With increased efforts towards E&P, we expect ONGC to report more oil and gas finds, going forward.

- **Increased capex, IOR/EOR projects to provide production growth:** Impressive RRR>1 for last 6 years. Production likely to be flat in short-term, however we expect volume growth in long term led by IOR/EOR, marginal fields and monetization of the discovered fields. Increased capex in the large unexplored NELP acreage could result in significant reserve accretion in future.

Key investment risks

- Ad-hocism in subsidy sharing. Delay in implementation of announced diesel reforms.
- Acquisition of overseas assets at high valuations against stiff competition from China.
- Slowdown in deep water development due to technological barriers.

Recent developments

- Government announced Diesel reforms to cut under recoveries. If executed in a timely manner this could lead to a significant reduction in under recoveries.
- OVL announced 2 (Azerbaijan and Kashagan) new acquisitions worth USD6b.
- Rangarajan committee submitted its report on gas pricing in India.

Valuation and view

- The stock trades at 9.7x FY14 EPS of INR31.7.
- Our SOTP-based target price for ONGC is INR402/sh. Maintain **Buy**.

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
308	402	30.5	Buy

Shareholding pattern (%)

	Dec-12	Sep-12	Dec-11
Promoter	69.2	69.2	74.1
Domestic Inst	11.2	11.4	6.8
Foreign	5.8	5.6	5.3
Others	13.8	13.7	13.7

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	29.2	29.8	-2.2
FY14	31.7	34.2	-7.2

Stock performance (1 year)



Financials and valuation

Income Statement		(INR Billion)			
Y/E March	2012	2013E	2014E	2015E	
Net Sales	1,464	1,577	1,690	1,902	
Growth (%)	24.4	7.8	7.2	12.5	
Government Levies	231	266	290	341	
Other Operating Costs	655	777	794	771	
Total Operating Costs	886	1,044	1,083	1,112	
EBITDA	578	533	607	790	
% of Net Sales	39.5	33.8	35.9	41.5	
Interest	4	8	10	7	
D,D&A	234	213	230	251	
Other Income	58	65	55	58	
Prov, writie-offs prior period	-31	0	0	0	
PBT	428	377	422	590	
Tax	144	126	146	205	
Rate (%)	34	33	35	35	
PAT	284	251	276	385	
Adj PAT	263	251	276	385	
Growth (%)	23.3	-4.5	9.8	39.6	
Minority int., assoc profits	3	2	4	5	
Net Profit post MI	260	249	271	380	

Balance Sheet		(INR Billion)			
Y/E March	2012	2013E	2014E	2015E	
Share Capital	43	43	43	43	
Reserves	1,322	1,471	1,643	1,883	
Net Worth	1,364	1,514	1,685	1,926	
Debt	152	135	135	136	
Deferred Tax	122	129	140	156	
Liability for Abandonment	204	207	210	213	
Minority Interest	22	24	28	33	
Capital Employed	1,865	2,009	2,199	2,463	
Net Fixed Assets	688	755	810	865	
Producing Properties	608	662	715	764	
Pre-producing Properties	117	127	150	179	
Investments (incl. mkt. sec.)	29	32	32	32	
Goodwill	78	73	68	63	
Cash & Bank Balances	374	359	422	552	
Inventories	132	92	101	104	
Sundry debtors	117	83	94	112	
Loans & Advances	130	123	125	128	
Other Current Assets	44	43	43	43	
Total Curr. Assets	797	700	785	938	
Current Liabilities	390	284	305	317	
Provisions	61	55	55	61	
Total current liabilities	452	339	360	377	
Net Curr. Assets	345	361	425	561	
Total assets	1,865	2,009	2,199	2,463	

E: MOSL Estimates

Ratios		(INR Billion)			
Y/E March	2012	2013E	2014E	2015E	
Basic (INR)					
EPS	30.4	29.2	31.7	44.4	
Cash EPS	58.2	54.9	59.8	75.6	
Book Value	159.5	176.9	197.0	225.1	
DPS	9.8	10.0	10.0	14.0	
Payout (incl. div tax)	32.8	40.1	36.8	36.8	
Valuation (x)					
P/E	10.1	10.6	9.7	6.9	
Cash P/E	5.3	5.6	5.2	4.1	
EV / EBITDA	4.1	4.5	3.8	2.8	
EV / Sales	1.6	1.5	1.4	1.2	
Price / Book Value	1.9	1.7	1.6	1.4	
Dividend Yield (%)	3.2	3.2	3.2	4.5	
EV/BOE (USD, 1P basis)	7.3	6.4	6.4	6.0	
Profitability Ratios (%)					
RoE	20.7	17.3	17.0	21.1	
RoCE	19.4	16.3	16.2	20.0	
Turnover Ratios					
Debtors (No. of Days)	26.8	23.2	19.2	19.8	
Fixed Asset Turnover (x)	2.4	2.2	2.2	2.3	
Leverage Ratio					
Net Debt / Equity (x)	-0.2	-0.2	-0.2	-0.2	

Cash Flow Statement		(INR Billion)			
Y/E March	2012	2013E	2014E	2015E	
OP/(Loss) before Tax	428	377	422	590	
DD & A	129	181	201	223	
Other op. expenses	107	0	0	0	
Direct Taxes Paid	-119	-119	-136	-189	
(Inc)/Dec in Wkg. Capital	-71	-30	-1	-6	
CF from Op. Activity	475	409	486	617	
(Inc)/Dec in FA & CWIP	-393	-304	-323	-348	
(Pur)/Sale of Investments	3	-3	0	0	
Loans and Advances					
Inc from Invst	0	0	0	0	
CF from Inv. Activity	-390	-307	-323	-348	
Issue of Shares	0	0	0	0	
Inc / (Dec) in Debt	92	-17	0	0	
Dividends Paid (incl. tax)	-85	-100	-100	-140	
Interest paid	-4	0	0	0	
CF from Fin. Activity	2	-117	-100	-140	
Inc / (Dec) in Cash	86	-15	63	130	
Add: Opening Balance	287	373	359	422	
Closing Balance	373	359	422	551	

N O T E S

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