

**February 12, 2013**

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Rating	Accumulate
Price	Rs308
Target Price	Rs361
Implied Upside	17.2%
Sensex	19,461
Nifty	5,898

*(Prices as on February 11, 2013)*
**Trading data**

Market Cap. (Rs bn)	2,638.5
Shares o/s (m)	8,555.5
3M Avg. Daily value (Rs m)	1482.4

**Major shareholders**

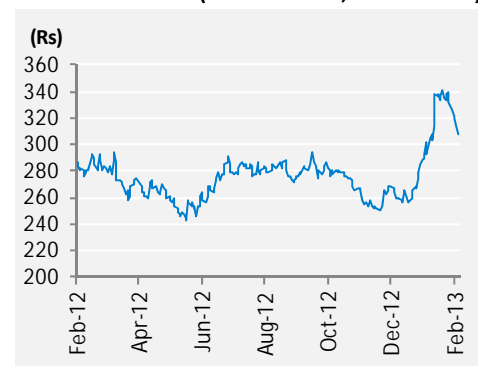
Promoters	69.23%
Foreign	5.79%
Domestic Inst.	11.16%
Public & Other	13.82%

**Stock Performance**

(%)	1M	6M	12M
Absolute	5.5	10.6	9.5
Relative	6.5	(0.3)	(0.2)

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2014	36.1	34.2	5.8
2015	39.9	37.1	7.5

**Price Performance (RIC:ONGC.BO, BB:ONGC IN)**


Source: Bloomberg

ONGC's Q3FY13 EBITDA increased 5.4% YoY and ~7% QoQ to Rs103.7bn, higher than our estimates (PLe Rs95.0bn) owing to higher than anticipated crude oil volumes and higher sales of value added products. ONGC's oil subsidy burden for the quarter was flat at Rs124bn (-1% YoY, +1% QoQ). Upstream share of under-recoveries were 38.7% during the quarter, ONGC in turn sharing 82.4% of the same. Government has arrived ONGC's standalone net realization at 47.9/bbl taking into account a US\$56/bbl discount on ONGC's standalone production (incl. condensates). Domestic crude oil production (including JV) fell 2% YoY to 6.6 MMT similarly natural gas production fell by 1% YoY to 6.3bcm. PAT stood at Rs55.6bn was higher than our expectation of Rs49.7bn.

- **Key concall takeaways:** 1) Delays on commissioning of projects is expected to push production upsides to 2014-15, management expects domestic production for FY14 at ~25.78MMTPA, a growth rate of 12-13% from current levels 2) Incremental production of 9-10MMTOE (oil + gas) over period of next 4-5 years. 3) OVL production continued to decline, down 32% YoY to 3.4MMT. 4) ACG acquisition to be completed by March-13.
- **Outlook:** Implementation of the government reforms on the pricing front is likely to result in improved crude oil linkages for ONGC. The same also reduces the concerns over negative correlation between crude oil prices and ONGC's net realisation, resulting into narrowing the valuation gap between ONGC and its international peers. In the longer-run, post successful implementation of UIDAI project (Phase I as well as Phase II), there exists a strong chance of further improvement in net realisation on account leverage to the crude oil prices. Acceptance of the recommendation of the Rangarajan committee can provide further upside to ONGC. We estimate the benefit of the move to ONGC stands at a significant ~Rs70/share. Moreover, despite the tardy execution skills of ONGC, if the company is able to deliver the said volumes growth over the period, it would be an additional positive trigger. However, strength in crude oil prices continues to be a bigger worry. Maintain Accumulate with a TP of Rs361/share.

Key financials (Y/e March)	2012	2013E	2014E	2015E
Revenues (Rs m)	1,473,057	1,588,529	1,735,273	1,779,850
Growth (%)	25.2	7.8	9.2	2.6
EBITDA (Rs m)	587,255	536,807	651,072	681,197
PAT (Rs m)	355,117	231,878	309,105	341,060
EPS (Rs)	41.5	27.1	36.1	39.9
Growth (%)	11.4	(34.7)	33.3	10.3
Net DPS (Rs)	9.8	9.5	12.6	14.0

Profitability & Valuation	2012	2013E	2014E	2015E
EBITDA margin (%)	39.9	33.8	37.5	38.3
RoE (%)	28.2	16.2	19.4	19.1
RoCE (%)	22.6	13.1	15.9	16.0
EV / sales (x)	1.7	1.4	1.3	1.0
EV / EBITDA (x)	4.3	4.3	3.4	2.5
PE (x)	7.4	11.4	8.5	7.7
P / BV (x)	1.9	1.8	1.6	1.4
Net dividend yield (%)	3.2	3.1	4.1	4.5

Source: Company Data; PL Research

**Exhibit 1: Q3FY13 Result Overview (Rs m)**

Y/e March	Q3FY13	Q3FY12	YoY gr. (%)	Q2FY13	9MFY13	9MFY12	QoQ gr. (%)
<b>Net Sales</b>	<b>209,872</b>	<b>181,238</b>	<b>15.8</b>	<b>198,851</b>	<b>608,597</b>	<b>544,058</b>	<b>11.9</b>
<b>Expenditure</b>							
Raw material	1,774	1,231	44.1	42	4,502	3,048	47.7
<i>% of net sales</i>	<i>0.8</i>	<i>0.7</i>		<i>0.0</i>	<i>0.7</i>	<i>0.6</i>	
Personnel cost	3,461	3,371	2.7	5,449	12,214	9,436	29.4
<i>% of net sales</i>	<i>1.6</i>	<i>1.9</i>		<i>2.7</i>	<i>2.0</i>	<i>1.7</i>	
Other operating expenses	92,273	70,061	31.7	89,673	266,428	203,044	31.2
<i>% of net sales</i>	<i>44.0</i>	<i>38.7</i>		<i>45.1</i>	<i>43.8</i>	<i>37.3</i>	
<b>EBITDA</b>	<b>112,364</b>	<b>106,576</b>	<b>5.4</b>	<b>103,687</b>	<b>325,453</b>	<b>328,530</b>	<b>(0.9)</b>
<i>Margin (%)</i>	<i>53.5</i>	<i>58.8</i>		<i>52.1</i>	<i>53.5</i>	<i>60.4</i>	
Depreciation	44,116	45,320	(2.7)	37,274	113,371	119,244	(4.9)
<b>EBIT</b>	<b>68,248</b>	<b>61,256</b>	<b>11.4</b>	<b>66,414</b>	<b>212,082</b>	<b>209,286</b>	<b>1.3</b>
Interest	12	19	(34.9)	31	336	112	201.2
Other Income	13,872	13,515	2.6	19,011	45,172	33,581	34.5
Exceptional item	-	31,421	(100.0)	-	-	31,421	-
<b>PBT</b>	<b>82,108</b>	<b>106,173</b>	<b>(22.7)</b>	<b>85,394</b>	<b>256,918</b>	<b>274,176</b>	<b>(6.3)</b>
Total taxes	26,478	38,759	(31.7)	26,429	81,545	93,728	(13.0)
<i>ETR (%)</i>	<i>32.2</i>	<i>36.5</i>		<i>30.9</i>	<i>31.7</i>	<i>34.2</i>	
<b>PAT</b>	<b>55,630</b>	<b>67,414</b>	<b>(17.5)</b>	<b>58,966</b>	<b>175,373</b>	<b>180,448</b>	<b>(2.8)</b>

Source: Company Data, PL Research

**Exhibit 2: Segmental Break-up (Rs m)**

Y/e March	Q3FY13	Q3FY12	YoY gr. (%)	Q2FY13	9MFY13	9MFY12	QoQ gr. (%)
<b>Segment Revenue</b>							
Offshore E&P	145,500	128,945	12.8	144,418	423,791	408,820	3.7
Onshore E&P	66,445	85,453	(22.2)	55,078	190,073	196,860	(3.4)
<b>Total revenue</b>	<b>211,945</b>	<b>214,399</b>	<b>(1.1)</b>	<b>199,496</b>	<b>613,864</b>	<b>605,680</b>	<b>1.4</b>
<b>EBIT</b>							
Offshore E&P	63,997	54,113	18.3	68,313	198,229	195,864	1.2
<i>Margin (%)</i>	<i>44.0</i>	<i>42.0</i>		<i>47.3</i>	<i>46.8</i>	<i>47.9</i>	
Onshore E&P	13,287	44,582	(70.2)	4,813	39,810	72,707	(45.2)
<i>Margin (%)</i>	<i>20.0</i>	<i>52.2</i>		<i>8.7</i>	<i>20.9</i>	<i>36.9</i>	
<b>Total EBIT</b>	<b>77,284</b>	<b>98,695</b>	<b>(21.7)</b>	<b>73,126</b>	<b>238,039</b>	<b>268,571</b>	<b>(11.4)</b>
EBIT (%)	36.5	46.0		36.7	38.8	44.3	
Less: Interest payment	12	19	(34.9)	31	336	124	170.8
Less: other unallocable exp net of income	(4,833)	(7,497)	(35.5)	(12,300)	(19,211)	(21,600)	(11.1)
<b>PBT</b>	<b>82,105</b>	<b>106,173</b>	<b>(22.7)</b>	<b>85,394</b>	<b>256,915</b>	<b>290,047</b>	<b>(11.4)</b>

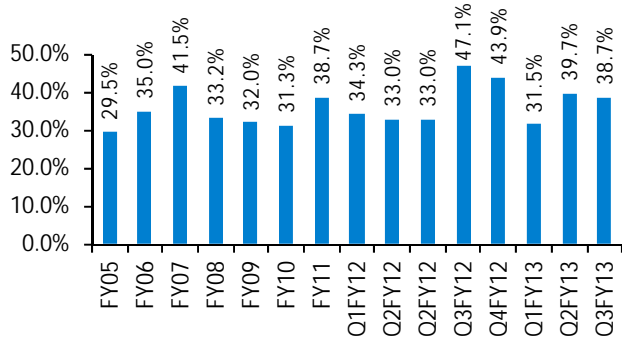
Source: Company Data, PL Research

**Exhibit 3: Operating Metrics**

	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
<b>Production- oil (MMT)</b>									
ONGC	6.21	6.01	5.93	6.04	5.96	5.78	5.64	5.62	5.68
JV	0.82	0.79	0.83	0.80	0.78	0.81	0.90	0.91	0.90
Total	7.03	6.80	6.76	6.84	6.74	6.59	6.54	6.54	6.58
<b>Production - gas (bcm)</b>									
ONGC	5.81	5.73	5.61	5.83	5.86	6.03	5.93	5.90	5.90
JV	0.55	0.58	0.56	0.56	0.55	0.53	0.49	0.46	0.45
Total	6.36	6.31	6.16	6.39	6.40	6.56	6.42	6.36	6.34
<b>Total (Oil &amp; Gas) (mmtoe)</b>	<b>13.39</b>	<b>13.11</b>	<b>12.92</b>	<b>13.23</b>	<b>13.15</b>	<b>13.15</b>	<b>12.96</b>	<b>12.89</b>	<b>12.93</b>
<b>Production VAP (tmt)</b>	780	828	720	797	812	806	733	777	803
<b>Sales - Oil (mmt)</b>									
ONGC	5.14	5.08	4.95	5.00	4.89	4.84	4.79	4.71	4.91
JV	0.73	0.75	0.74	0.74	0.75	1.09	1.11	1.15	1.13
Total	<b>5.87</b>	<b>5.83</b>	<b>5.69</b>	<b>5.74</b>	<b>5.64</b>	<b>5.93</b>	<b>5.90</b>	<b>5.87</b>	<b>6.04</b>
<b>Sales - Gas (bcm)</b>									
ONGC	4.6	4.46	4.38	4.55	4.53	4.75	4.68	4.66	4.64
JV	0.49	0.52	0.5	0.51	0.49	0.48	0.44	0.41	0.39
Total	5.09	4.98	4.88	5.05	5.02	5.23	5.12	5.06	5.02
<b>Total (Oil &amp; Gas) (mmtoe)</b>	<b>10.96</b>	<b>10.81</b>	<b>10.57</b>	<b>10.79</b>	<b>10.66</b>	<b>11.16</b>	<b>11.02</b>	<b>10.92</b>	<b>11.06</b>
<b>Sales VAP (tmt)</b>	790	845	696	801	820	812	714	788	798

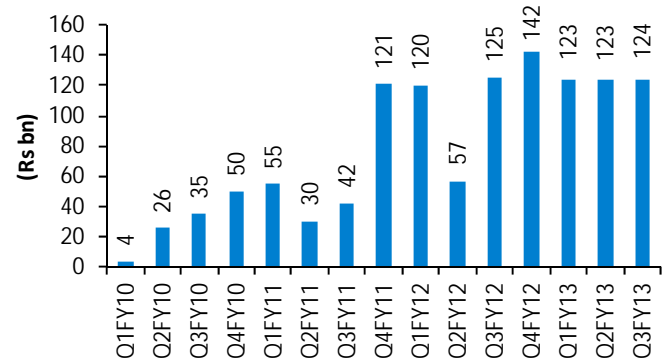
Source: Company Data, PL Research

**Exhibit 4: Share of upstream companies in total Under recoveries**



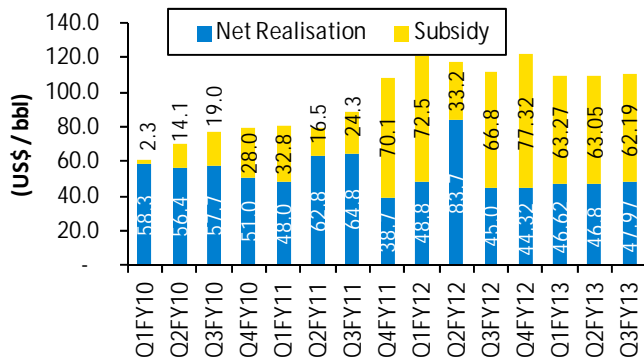
Source: Company Data, PL Research

**Exhibit 5: ONGC's Subsidy Burden**



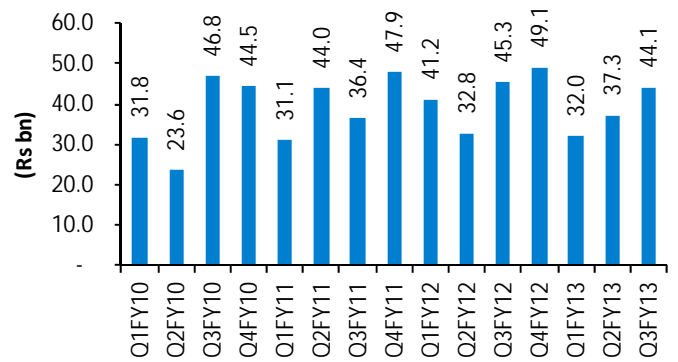
Source: Company Data, PL Research

**Exhibit 6: Subsidy and Net Realisation**



Source: Company Data, PL Research

**Exhibit 7: ONGC's DD&A expense**



Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2012	2013E	2014E	2015E
<b>Net Revenue</b>	<b>1,473,057</b>	<b>1,588,529</b>	<b>1,735,273</b>	<b>1,779,850</b>
Raw Material Expenses	463,230	582,742	595,986	595,986
Gross Profit	1,009,827	1,005,787	1,139,287	1,183,864
Employee Cost	16,958	18,229	19,141	19,811
Other Expenses	405,614	450,750	469,074	482,857
<b>EBITDA</b>	<b>587,255</b>	<b>536,807</b>	<b>651,072</b>	<b>681,197</b>
Depr. & Amortization	129,139	239,030	251,406	263,099
Net Interest	4,349	7,140	7,140	7,140
Other Income	47,949	61,632	75,641	105,164
<b>Profit before Tax</b>	<b>501,716</b>	<b>352,269</b>	<b>468,167</b>	<b>516,122</b>
Total Tax	143,746	117,538	156,209	172,209
<b>Profit after Tax</b>	<b>357,970</b>	<b>234,731</b>	<b>311,958</b>	<b>343,913</b>
Ex-Od items / Min. Int.	2,853	2,853	2,853	2,853
<b>Adj. PAT</b>	<b>355,117</b>	<b>231,878</b>	<b>309,105</b>	<b>341,060</b>
<b>Avg. Shares O/S (m)</b>	<b>8,555.5</b>	<b>8,555.5</b>	<b>8,555.5</b>	<b>8,555.5</b>
<b>EPS (Rs.)</b>	<b>41.5</b>	<b>27.1</b>	<b>36.1</b>	<b>39.9</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	220,974	413,440	485,074	504,467
C/F from Investing	(260,601)	(104,345)	(268,962)	128,142
C/F from Financing	31,640	(98,965)	(130,498)	(143,545)
Inc. / Dec. in Cash	(7,987)	210,130	85,614	489,063
Opening Cash	286,883	278,896	489,025	574,639
Closing Cash	278,896	489,025	574,639	1,063,702
FCFF	100,784	1,167,692	450,960	509,489
FCFE	190,104	1,167,692	450,960	509,489

**Key Financial Metrics**

Y/e March	2012	2013E	2014E	2015E
<b>Growth</b>				
Revenue (%)	25.2	7.8	9.2	2.6
EBITDA (%)	21.2	(8.6)	21.3	4.6
PAT (%)	11.4	(34.7)	33.3	10.3
EPS (%)	11.4	(34.7)	33.3	10.3
<b>Profitability</b>				
EBITDA Margin (%)	39.9	33.8	37.5	38.3
PAT Margin (%)	24.1	14.6	17.8	19.2
RoCE (%)	22.6	13.1	15.9	16.0
RoE (%)	28.2	16.2	19.4	19.1
<b>Balance Sheet</b>				
Net Debt : Equity	(0.1)	(0.2)	(0.3)	(0.5)
Net Wrkng Cap. (days)	(166)	(38)	(39)	(40)
<b>Valuation</b>				
PER (x)	7.4	11.4	8.5	7.7
P / B (x)	1.9	1.8	1.6	1.4
EV / EBITDA (x)	4.3	4.3	3.4	2.5
EV / Sales (x)	1.7	1.4	1.3	1.0
<b>Earnings Quality</b>				
Eff. Tax Rate	28.7	33.4	33.4	33.4
Other Inc / PBT	9.6	17.5	16.2	20.4
Eff. Depr. Rate (%)	5.2	13.3	13.2	13.2
FCFE / PAT	53.5	503.6	145.9	149.4

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	1,364,391	1,501,591	1,684,486	1,886,288
Total Debt	152,232	152,232	152,232	152,232
Other Liabilities	359,692	362,545	365,398	368,251
<b>Total Liabilities</b>	<b>1,876,315</b>	<b>2,016,368</b>	<b>2,202,116</b>	<b>2,406,770</b>
Net Fixed Assets	1,490,405	1,417,352	1,510,549	1,224,473
Goodwill	—	—	—	—
Investments	29,207	29,207	29,207	29,207
Net Current Assets	356,511	569,618	662,168	1,152,899
<i>Cash &amp; Equivalents</i>	<i>278,896</i>	<i>489,025</i>	<i>574,639</i>	<i>1,063,702</i>
<i>Other Current Assets</i>	<i>517,798</i>	<i>342,971</i>	<i>356,136</i>	<i>360,575</i>
<i>Current Liabilities</i>	<i>440,182</i>	<i>262,378</i>	<i>268,607</i>	<i>271,379</i>
Other Assets	191	191	191	191
<b>Total Assets</b>	<b>1,876,315</b>	<b>2,016,368</b>	<b>2,202,116</b>	<b>2,406,770</b>

**Quarterly Financials (Rs m)**

Y/e March	Q2FY12	Q1FY13	Q2FY13	Q3FY13
<b>Net Revenue</b>	<b>226,163</b>	<b>201,778</b>	<b>198,851</b>	<b>210,932</b>
<b>EBITDA</b>	<b>141,596</b>	<b>111,305</b>	<b>103,687</b>	<b>113,425</b>
<i>% of revenue</i>	<i>62.6</i>	<i>55.2</i>	<i>52.1</i>	<i>53.8</i>
Depr. & Amortization	32,782	31,981	37,274	44,116
Net Interest	65	293	31	12
Other Income	14,420	10,385	19,011	12,812
<b>Profit before Tax</b>	<b>123,169</b>	<b>89,415</b>	<b>85,394</b>	<b>82,108</b>
Total Tax	36,747	28,638	26,429	26,478
<b>Profit after Tax</b>	<b>86,422</b>	<b>60,777</b>	<b>58,966</b>	<b>55,630</b>
<b>Adj. PAT</b>	<b>86,422</b>	<b>60,777</b>	<b>58,966</b>	<b>55,630</b>

**Key Operating Metrics**

Y/e March	2012	2013E	2014E	2015E
Own Dom. Sale of crude oil (MMT)	19.7	20.5	20.6	20.6
Dom. Sale of Natural gas (MCM)	20,174	20,914	21,309	21,309
OVL-Oil Prod. (MMT)	6.2	4.3	4.8	5.9
OVL-Gas Prod. (BCM)	2.5	2.4	2.4	2.4
MRPL Thruput (MT)	13.8	14.0	15.0	15.0
Dom. Gross Realisations (US\$/bbls)	116.2	111.1	106.1	106.1
Dom. Net Realisations (US\$/bbls)	56.4	48.6	61.1	61.1
Subsidy burden (Rs m)	427,323	506,300	367,035	367,035
Subsidy burden (% of subsidy)	34.5	50.6	36.7	36.7
Dom. Realisations of NG (Rs/scm)	7.3	8.3	8.3	8.3

Source: Company Data, PL Research.

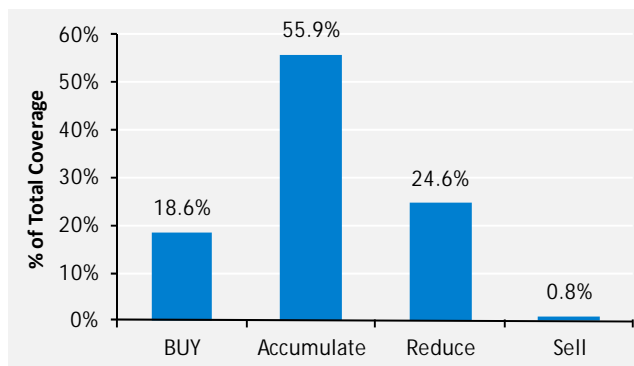


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<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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