

BSE SENSEX	S&P CNX
34,951	10,524
Bloomberg	ONGC IN
Equity Shares (m)	12,833
M.Cap.(INRb)/(USDb)	1987.2 / 27.2
52-Week Range (INR)	213 / 145
1, 6, 12 Rel. Per (%)	4/-15/-23
12M Avg Val (INR M)	1328
Free float (%)	32.5

CMP: INR155 TP: INR208 (+34%) Buy

EBITDA below estimates; no subsidy burden

- ONGC reported net operating income of INR280b (est. 301b, +48% YoY, +17% QoQ), lower than our estimate due to higher-than-expected discount of 2.4% to Brent for oil price realization and lower oil sales. EBITDA came in at INR158b (est. 168b, +51% YoY, +39% QoQ). Depreciation including write-offs stood at INR48.5b (est. 63.6b, flat YoY, -23% QoQ), lower than our estimate due to lower write-offs. Other income stood at INR23.9b (est. 8b, +24% YoY, -36% QoQ). Despite lower-than-expected EBITDA, PAT stood at INR82.6b (est. 70.2b, +61% YoY, +40% QoQ), higher than our estimate due to much lower depreciation and higher other income.
- Oil realization:** Crude oil realization stood at USD73.1/bbl v/s USD51.2/bbl in 2QFY18 and at USD74.2/bbl in 1QFY19. There was no subsidy burden in the quarter.
- Sales volumes:** Oil sold stood at 5.4mmt (-8% YoY, -9% QoQ). Gas sold stood at 5.0bcm (+2% YoY, +5% QoQ). Total VAP sold stood at 914tmt (flat YoY, +11% QoQ).
- Lower DDA at USD7.6/boe:** Write-offs in the quarter stood at INR13.2b v/s INR13.3b in 2QFY18 and INR11.4b in 1QFY19. DDA stood at USD7.6/boe v/s USD8.1/boe in 2QFY18 and USD8.2/boe in 1QFY19.

Valuation and view

- 1H standalone EPS stands at INR11.2. We estimate full-year standalone EPS at INR25.4.
- The stock is trading at 4.7x FY20E consolidated EPS of INR34.1. We value the standalone segment at 8.0x FY20 adj. EPS of INR22.5 and add value of investments to arrive at target of INR208. Reiterate **Buy**.

Financials & Valuations (Cons) (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	3,622	4,858	5,064
EBITDA	643	926	945
PAT	259	410	420
EPS (INR)	20.2	31.9	32.7
Gr. (%)	-9.9	58.2	2.5
BV/Sh (INR)	159	179	199
RoE (%)	13.0	18.9	17.3
RoCE (%)	9.2	13.8	13.6
P/E (x)	7.7	4.8	4.7
P/BV (x)	1.0	0.9	0.8
EV/EBITDA (x)	4.6	2.8	2.7

Estimate change



TP change



Rating change



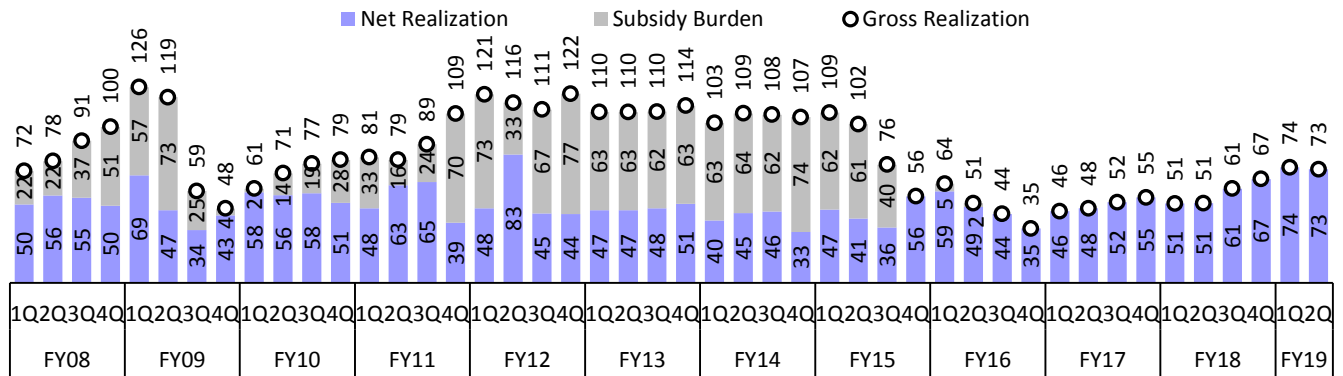
Standalone - Quarterly Performance

Y/E March	FY18				FY19				FY18	FY19E	FY19	Var vs est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	190,735	189,649	229,959	239,698	272,128	279,892	293,352	295,328	850,041	1,140,700	301,082	-7%
YoY Change (%)	7.9	3.7	15.4	10.4	42.7	47.6	27.6	23.2	9.5	34.2	58.8	
EBITDA	98,807	104,692	125,247	113,822	147,321	157,887	173,919	175,420	442,568	654,546	168,213	-6%
Margins (%)	51.8	55.2	54.5	47.5	54.1	56.4	59.3	59.4	52.1	57.4	55.9	
Depreciation	45,204	48,389	58,614	62,813	50,266	48,488	55,046	55,046	215,020	208,845	63,619	-24%
Interest	2,769	3,274	3,099	5,942	7,486	6,291	6,789	6,789	15,085	27,355	4,559	38%
Other Income	8,544	19,315	11,265	37,337	6,499	23,942	24,002	24,002	76,461	78,445	8,000	199%
PBT	59,378	72,343	74,800	82,405	96,068	127,050	136,086	137,587	288,925	496,791	108,035	18%
Tax	20,530	21,036	24,653	23,253	34,629	44,404	45,357	45,858	89,472	170,248	37,812	17%
Rate (%)	34.6	29.1	33.0	28.2	36.0	35.0	33.3	33.3	31.0	34	35.0	
Adj. PAT	38,847	51,307	50,147	59,151	61,439	82,646	90,728	91,729	199,453	326,543	70,223	18%
YoY Change (%)	-8.2	3.1	15.2	36.3	58.2	61.1	80.9	55.1	11.4	63.7	36.9	
Margins (%)	20.4	27.1	21.8	24.7	22.6	29.5	30.9	31.1	23.5	28.6	23.3	

Key Assumptions (USD/bbl)

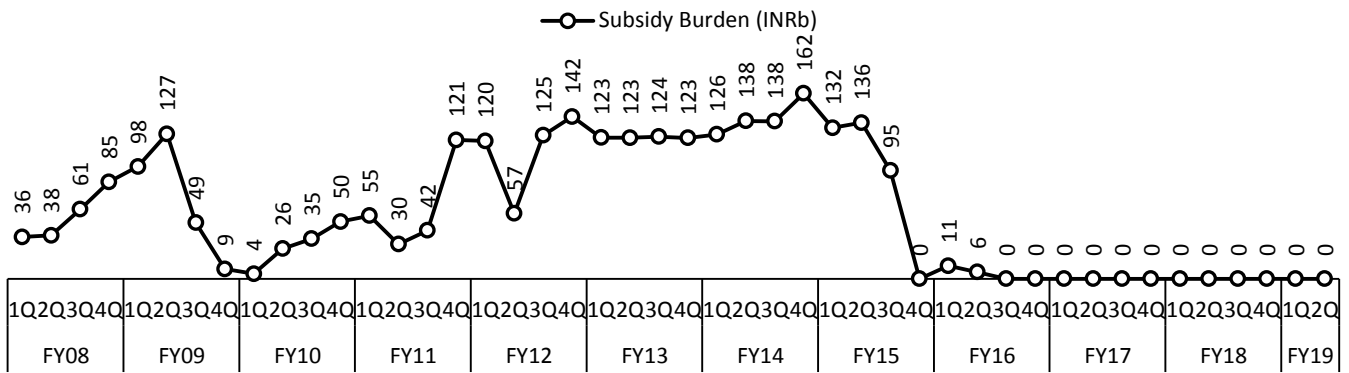
Fx rate (INR/USD)	64.5	64.3	64.7	64.3	67.0	70.2	72.5	73.0	64.5	70.7	70.2	0%
Gross Oil Realization	51.0	51.2	60.6	66.7	74.2	73.1	73.5	73.5	57.4	63.2	74.6	-2%
Net Oil Realization	51.0	51.2	60.6	66.7	74.2	73.1	73.5	73.5	57.4	63.2	74.6	-2%
Crude oil sold (mmt)	6.0	5.8	5.9	5.9	5.8	5.4	5.4	5.4	23.7	22.0	5.7	-6%
Gas sold (bcm)	4.8	4.9	5.0	4.8	4.9	5.0	5.0	5.0	19.5	19.9	5.1	-1%
VAP sold (tmt)	769.0	849.0	908.0	820.0	856.0	914.0	858.1	858.1	3,346.0	3,486.2	858.1	7%

Exhibit 1: ONGC: 2QFY19 net realization at USD73/bbl



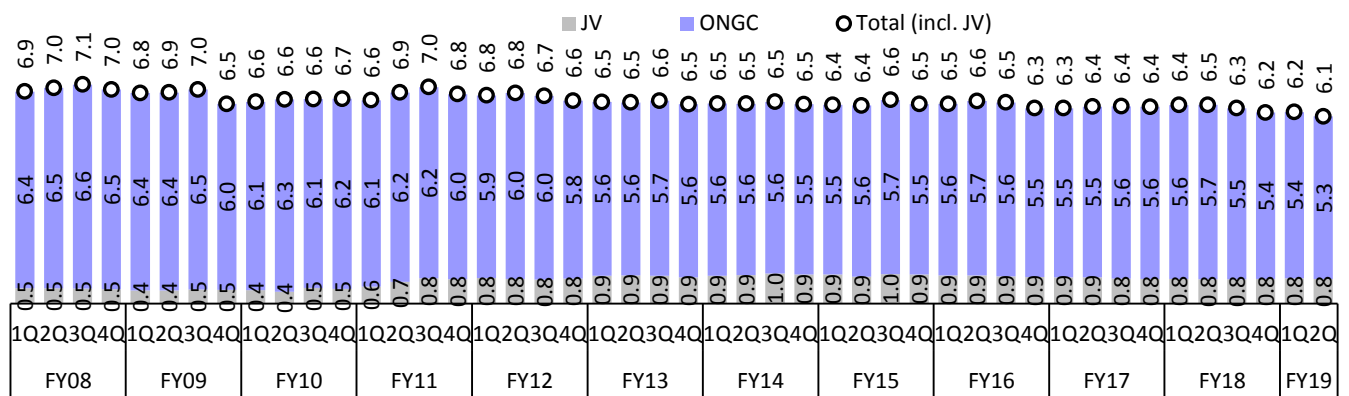
Source: Company, MOSL

Exhibit 2: Nil subsidy burden



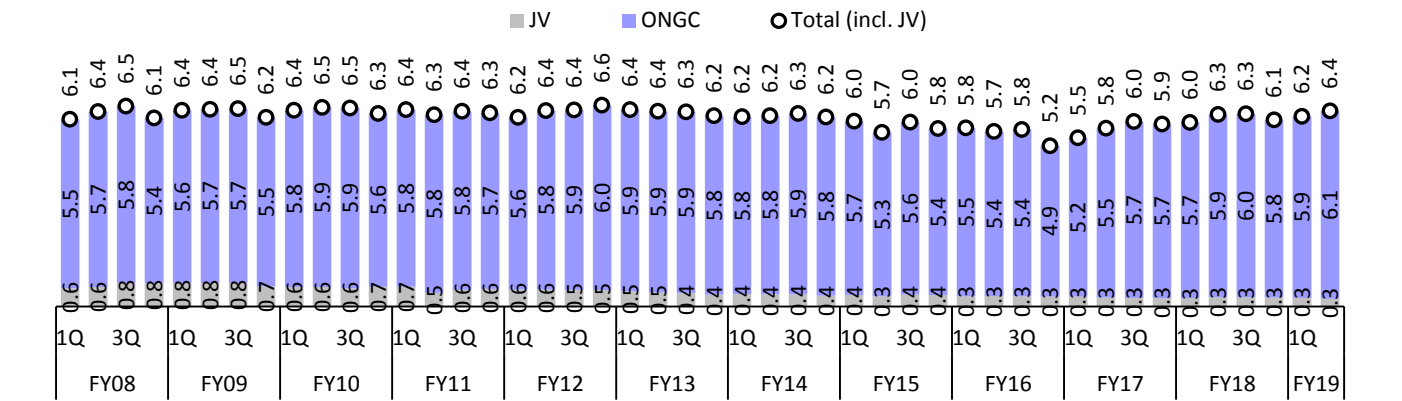
Source: Company, MOSL

Exhibit 3: Oil production (incl. JV) -5.8% YoY, -2.2% QoQ (mmt)



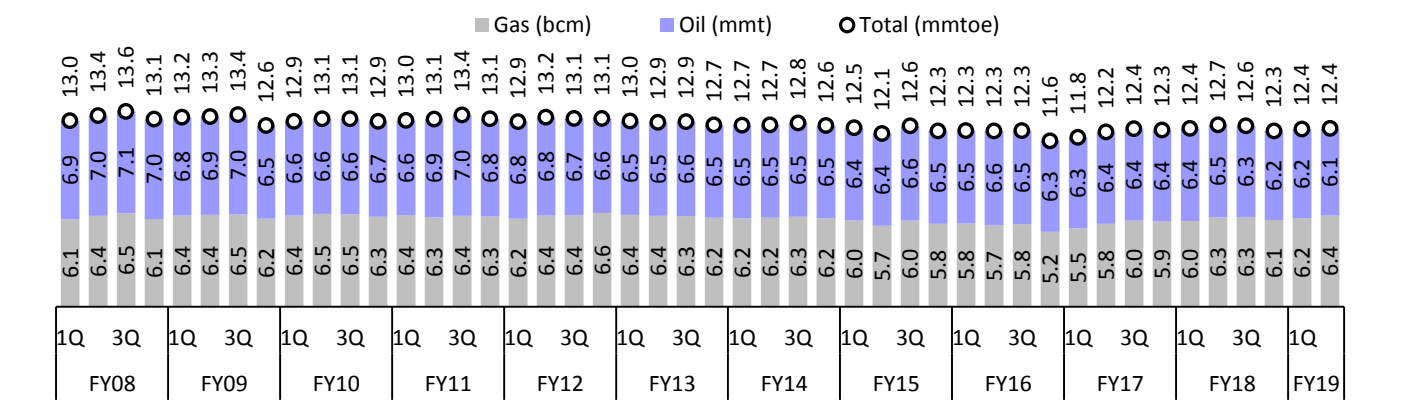
Source: Company, MOSL

Exhibit 4: Gas production (incl. JV) +1.8% YoY, +2.8% QoQ (bcm)



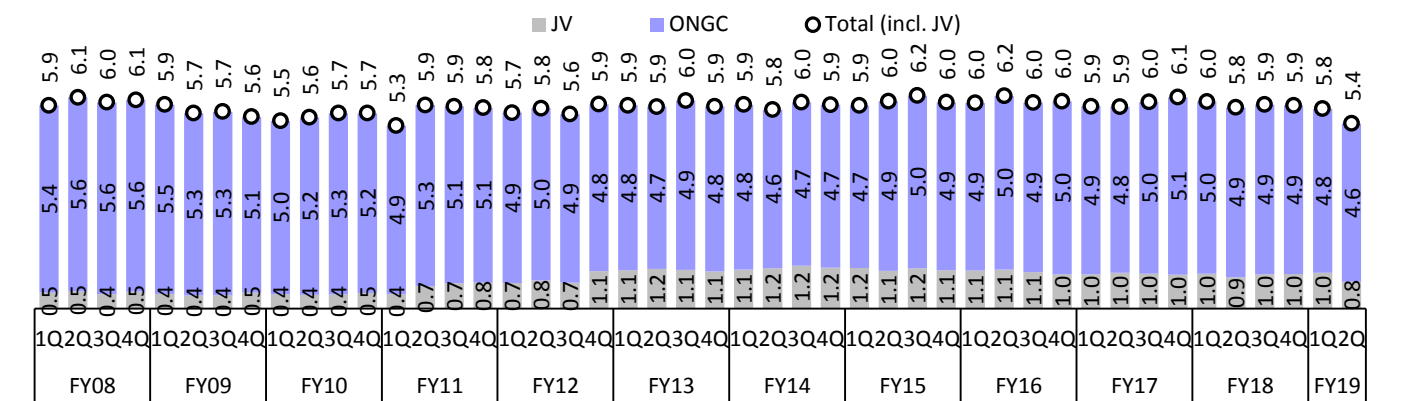
Source: Company, MOSL

Exhibit 5: Oil + Gas production -2% YoY, +0.3% QoQ (mmtoe)



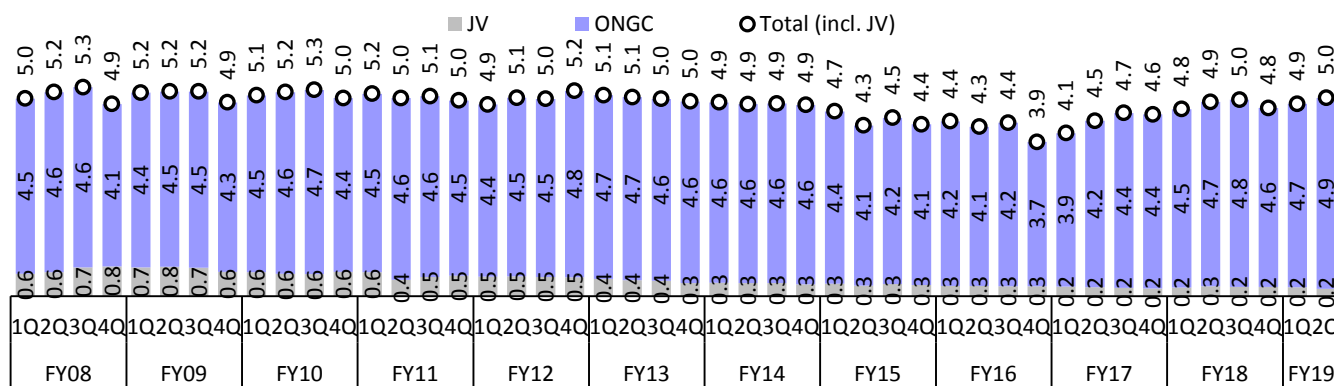
Source: Company, MOSL

Exhibit 6: Oil sales (including JV) -7.9% YoY, -7.4% QoQ (mmt)



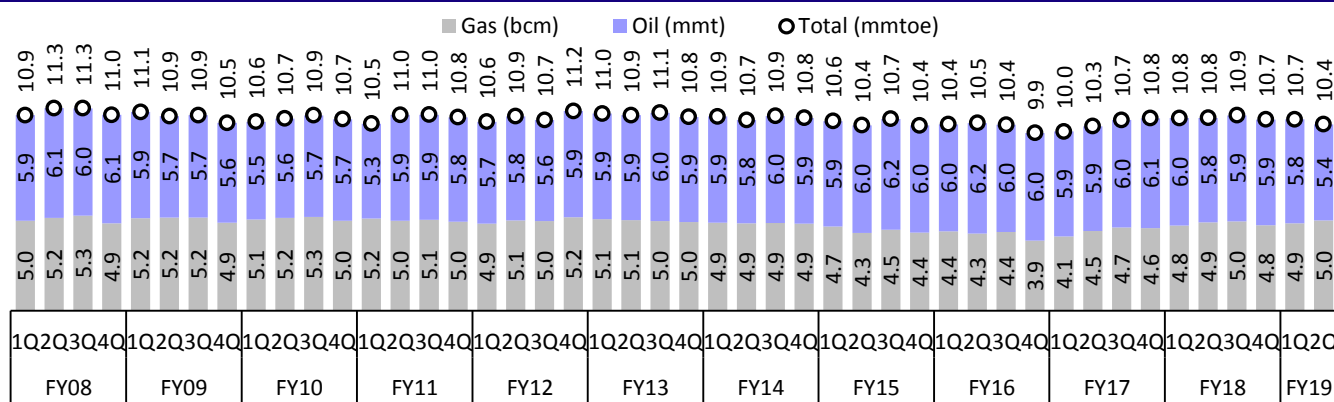
Source: Company, MOSL

Exhibit 7: Gas sales (including JV) +2.1% YoY, +3.1% QoQ (bcm)



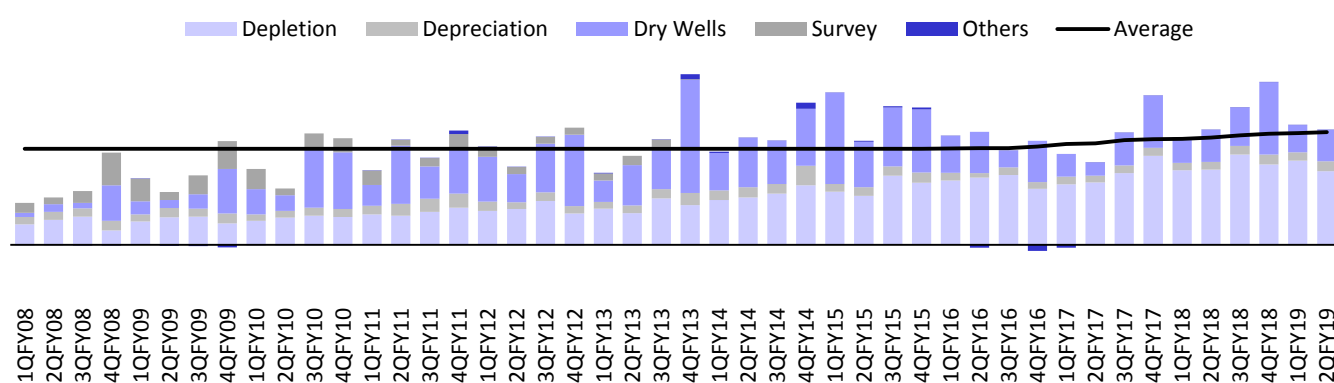
Source: Company, MOSL

Exhibit 8: Oil + Gas Sales -3.3% YoY, -2.6% QoQ (mmtoe)



Source: Company, MOSL

Exhibit 9: DD&A flat YoY, -4% QoQ (INRb)



Source: Company, MOSL

Concall highlights

- The company would consider a buyback post 3QFY19
- It does not expect any subsidy burden for 2HFY19. However, there has been no such communication from the government.
- Oil production in FY19 to be at the same level as in FY18
- Write-offs in FY19 would be in same line as that in FY18
- No change in timeline for KG-DWN-98/2, three rigs have been deployed; long lead items have already been ordered
- Royalty share has come down to its own participating interest for few JVs

- Delay in deployment of mobile offshore production unit has resulted in a shortfall in oil production
- Out of 3mmscmd of S1 and Vashistha, 2.4mmscmd qualifies for premium pricing
- Recent EOR benefits are only for prospective projects
- Production guidance for FY19
 - Standalone – oil 22.75mmt, gas 24.41bcm
 - JVs – oil 3.18mmt, gas 1.1bcm

Valuation and view

- Oil production is expected to be flat while gas production is expected to grow by ~5-7% in FY19/20. Our assumption is conservative compared to the estimates of the company.
- With Brent at USD75/70bbl for FY19/20 and INR/USD at 70.7/73.4 for FY19/20, we expect consolidated EPS of INR31.9/32.7 for FY19/20. The stock trades at 0.8x FY20 BV, 4.7x FY20E consolidated EPS and at an EV of 2.7x FY20E EBITDA. It offers an attractive dividend yield of ~6% (FY20). Using SOTP, we value the stock at INR208/share (34% upside). Maintain **Buy**.

Exhibit 10: SOTP for ONGC

Valuation of ONGC	
Standalone adjusted FY20 EPS	22.5
PE (x)	8.0
Valuation of ONGC standalone (INR/share)	180
Listed investments	
Indian Oil Corporation	9
Petronet LNG	3
GAIL	3
MRPL	7
HPCL	10
Total valuation	
	212
Valuation of Mozambique	
Recoverable reserves (tcf)	75
Valuation of block (USD bn)	31
ONGC's stake (%)	16
Discount rate (%)	50
Valuation for ONGC (USD mn)	3
Value paid (USD bn)	3
Valuation for ONGC (INR/share)	(4)
Valuation of ONGC (INR/share)	
	208

Source: MOSL, Company

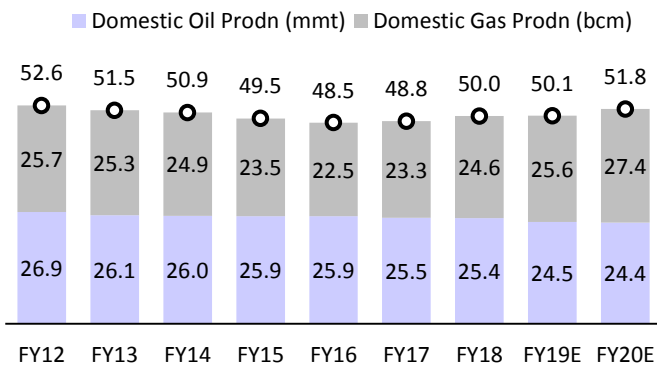
Exhibit 11: ONGC: Key Assumptions

Year End: March 31 (INRm)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Exchange Rate (INR/USD)	47.8	54.4	60.6	61.4	65.5	67.1	64.5	70.7	73.4
APM Gas Price (USD/mmbtu)	4.2	4.2	4.2	4.9	4.7	3.1	3.0	3.5	3.8
Brent crude price (USD/bbl)	114.5	110.6	107.8	86.0	47.6	49.0	57.6	74.9	70.0
Production Details (mmtoe)									
Domestic Oil Prodn (mmt)	26.9	26.1	26.0	25.9	25.9	25.5	25.4	24.5	24.4
Domestic Gas Prodn (bcm)	25.7	25.3	24.9	23.5	22.5	23.3	24.6	25.6	27.4
Domestic Prodn (mmtoe)	52.6	51.5	50.9	49.5	48.5	48.8	50.0	50.1	51.8
OVL Production (mmtoe)	8.8	7.3	8.4	8.9	8.9	12.8	14.2	14.1	14.1
Group Production (mmtoe)	61.4	58.7	59.3	58.3	57.4	61.6	64.2	64.3	65.9
Subsidy Sharing (INRb)									
ONGC Subsidy	445	494	564	363	17	0	0	0	0
Oil Price Realization (USD/bbl)									
Gross	117.4	110.5	106.7	86.0	48.6	50.2	57.4	73.6	69.3
Upstream Discount	62.4	62.9	65.8	40.9	1.8	0.0	0.0	0.0	0.0
Net	55.0	47.6	40.9	45.1	46.8	50.2	57.4	73.6	69.3

Source: Company, MOSL

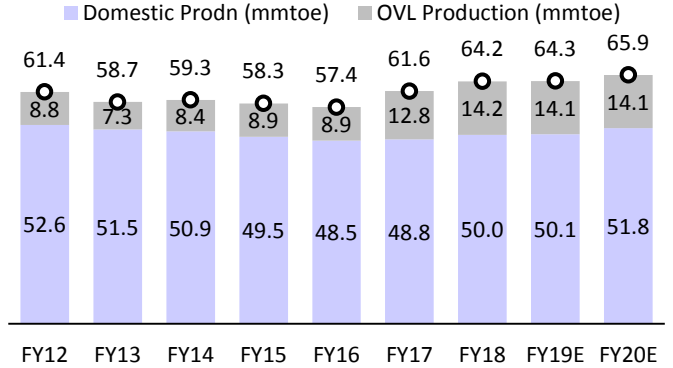
ONGC: Story in charts

Exhibit 12: Expect domestic production uptick in coming years (mmt)



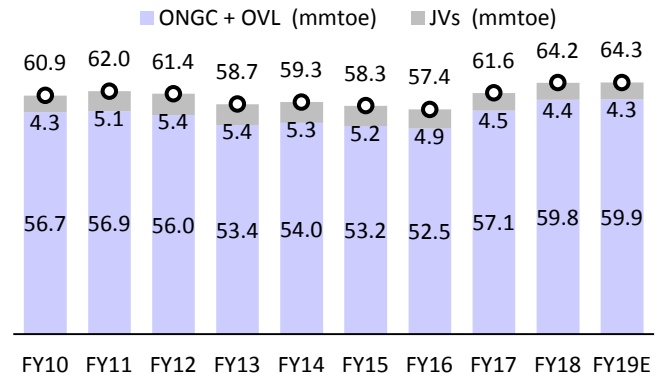
Source: Company, MOSL

Exhibit 13: OVL production to remain stable



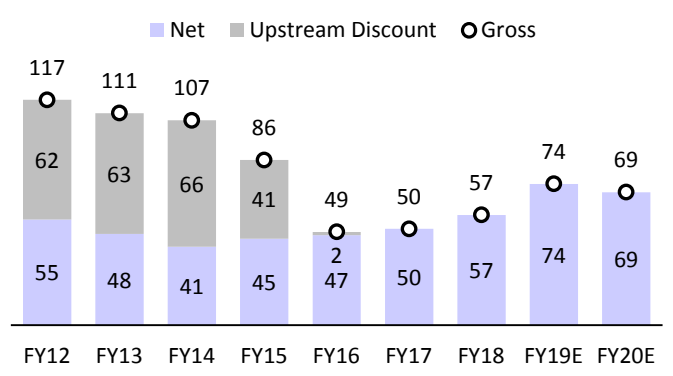
Source: Company, MOSL

Exhibit 14: JV share expected to shrink



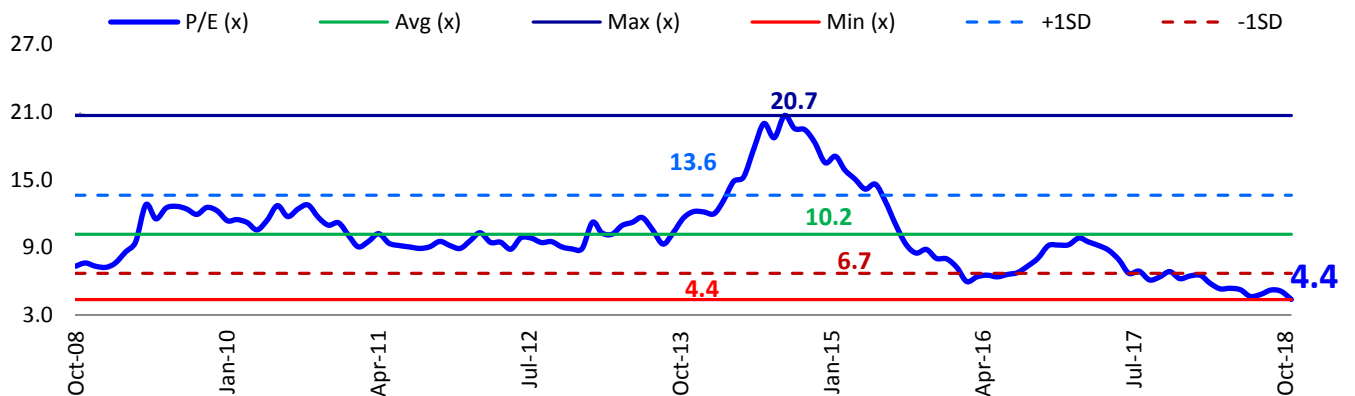
Source: Company, MOSL

Exhibit 15: Net realization (USD/bbl)



Source: Company, MOSL

Exhibit 16: ONGC: 1 Year forward P/E Chart



Source: Company, MOSL

Financials and Valuations (Consolidated)

Income Statement								(INR M)	
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	
Total Income from Operations	1,624,032	1,744,771	1,608,897	1,356,642	3,256,662	3,622,462	4,857,686	5,064,063	
Change (%)	11.0	7.4	-7.8	-15.7	140.1	11.2	34.1	4.2	
Government Levies	256,886	261,893	255,065	0	0	0	0	0	
Other Operating Costs	818,387	892,607	807,294	904,510	2,676,430	2,979,185	3,931,241	4,119,210	
Total Expenditure	1,075,274	1,154,500	1,062,360	904,510	2,676,430	2,979,185	3,931,241	4,119,210	
% of Sales	66.2	66.2	66.0	66.7	82.2	82.2	80.9	81.3	
EBITDA	548,758	590,270	546,538	452,132	580,232	643,277	926,446	944,853	
Margin (%)	33.8	33.8	34.0	33.3	17.8	17.8	19.1	18.7	
Depreciation	231,399	250,690	289,844	224,626	254,388	305,506	293,069	311,720	
EBIT	317,359	339,580	256,694	227,506	325,845	337,771	633,377	633,133	
Int. and Finance Charges	4,838	6,243	28,624	37,656	35,911	49,990	57,280	43,875	
Other Income	54,900	68,937	59,644	81,448	93,232	74,682	12,335	13,673	
PBT bef. EO Exp.	367,422	402,274	287,715	271,298	383,165	362,462	588,432	602,930	
EO Items	0	2,423	-14,011	-79,433	5,910	2,481	0	0	
PBT after EO Exp.	367,422	404,697	273,704	191,865	389,075	364,944	588,432	602,930	
Total Tax	127,519	127,604	96,974	69,507	125,484	131,395	205,951	211,026	
Tax Rate (%)	34.7	31.5	35.4	36.2	32.3	36.0	35.0	35.0	
Minority Interest	-2,294	1,465	-6,606	-8,657	-28,100	-27,131	-27,351	-28,069	
Reported PAT	242,196	275,628	183,335	131,016	291,691	260,680	409,832	419,973	
Adjusted PAT	242,234	262,235	183,638	174,478	287,687	259,092	409,832	419,973	
Change (%)	-6.9	8.3	-30.0	-5.0	64.9	-9.9	58.2	2.5	
Margin (%)	14.9	15.0	11.4	12.9	8.8	7.2	8.4	8.3	

Balance Sheet								(INR M)	
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	
Equity Share Capital	42,778	42,778	42,778	42,778	64,166	64,166	64,166	64,166	
Total Reserves	1,482,502	1,678,732	1,761,767	1,935,359	1,879,686	1,976,023	2,233,011	2,491,430	
Net Worth	1,525,280	1,721,510	1,804,544	1,978,136	1,943,852	2,040,189	2,297,177	2,555,597	
Minority Interest	19,467	29,125	24,731	26,518	132,920	156,060	156,060	156,060	
Total Loans	204,508	455,881	518,713	445,477	743,998	1,012,461	750,000	600,000	
Deferred Tax Liabilities	142,251	178,635	181,759	264,457	352,172	398,070	398,070	398,070	
Others	0	0	0	222,258	0	0	0	0	
Capital Employed	1,891,506	2,385,152	2,529,748	2,936,846	3,172,941	3,606,779	3,601,306	3,709,726	
Net Fixed Assets	407,785	463,007	687,881	1,509,467	1,969,350	2,118,473	1,996,925	1,853,367	
Goodwill on Consolidation	83,255	183,545	201,399	153,301	141,904	142,026	142,026	142,026	
Capital WIP	397,397	538,270	422,115	219,045	213,734	213,813	370,544	521,765	
Pre & Producing Properties	705,450	912,682	910,049	0	0	0	0	0	
Exploratory wells under progress	136,417	182,067	211,967	357,640	376,692	401,105	502,855	613,470	
Total Investments	21,282	47,459	47,491	406,669	707,458	673,425	673,425	673,425	
Curr. Assets, Loans&Adv.	776,748	915,192	890,070	763,161	1,029,380	1,036,518	1,329,398	1,367,054	
Others	157,142	191,685	227,546	267,452	427,862	496,397	544,670	596,300	
Inventory	127,804	148,015	106,062	99,181	298,817	305,630	443,918	465,143	
Account Receivables	153,956	160,284	187,970	95,013	139,101	155,556	197,566	205,960	
Cash and Bank Balance	196,191	244,801	160,969	276,923	132,126	50,784	113,686	68,614	
Loans and Advances	141,656	170,408	207,522	24,593	31,473	28,151	29,559	31,036	
Curr. Liability & Prov.	636,829	857,070	841,225	472,436	1,265,575	978,580	1,413,865	1,461,380	
Account Payables	373,384	543,502	490,837	460,127	984,917	683,139	1,118,424	1,165,939	
Provisions	263,445	313,568	350,388	12,309	280,658	295,441	295,441	295,441	
Net Current Assets	139,920	58,122	48,845	290,725	-236,196	57,938	-84,467	-94,327	
Appl. of Funds	1,891,506	2,385,151	2,529,748	2,936,846	3,172,942	3,606,779	3,601,306	3,709,726	

E: MOSL Estimates

Financials and Valuations

Ratios								
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)								
EPS	18.9	20.4	14.3	13.6	22.4	20.2	31.9	32.7
Cash EPS	36.9	40.0	36.9	31.1	42.2	44.0	54.8	57.0
BV/Share	118.9	134.1	140.6	154.1	151.5	159.0	179.0	199.1
DPS	6.3	6.3	6.3	5.7	6.9	6.6	10.2	10.8
Payout (%)	38.9	34.5	53.2	66.8	36.0	38.0	37.3	38.5
Valuation (x)								
P/E			10.8	11.4	6.9	7.7	4.8	4.7
Cash P/E			4.2	5.0	3.7	3.5	2.8	2.7
P/BV			1.1	1.0	1.0	1.0	0.9	0.8
EV/Sales			1.5	1.6	0.8	0.8	0.5	0.5
EV/EBITDA			4.3	4.8	4.5	4.6	2.8	2.7
Dividend Yield (%)	4.1	4.1	4.1	3.7	4.5	4.3	6.6	6.9
FCF per share	-11.7	-0.5	-2.3	36.5	13.3	-17.0	37.3	20.8
Return Ratios (%)								
RoE	16.8	16.2	10.4	9.2	14.7	13.0	18.9	17.3
RoCE	15.5	14.3	9.1	8.3	11.1	9.2	13.8	13.6
RoIC	19.3	16.4	9.6	7.4	10.6	9.0	16.1	16.8
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.2	1.1	0.5	1.0	1.0	1.3	1.3
Asset Turnover (x)	0.9	0.7	0.6	0.5	1.0	1.0	1.3	1.4
Inventory (Days)	29	31	24	27	33	31	33	34
Debtor (Days)	35	34	43	26	16	16	15	15
Creditor (Days)	84	114	111	124	110	69	84	84
Leverage Ratio (x)								
Current Ratio	1.2	1.1	1.1	1.6	0.8	1.1	0.9	0.9
Interest Cover Ratio	65.6	54.4	9.0	6.0	9.1	6.8	11.1	14.4
Net Debt/Equity	0.0	0.1	0.2	0.1	0.3	0.5	0.3	0.2

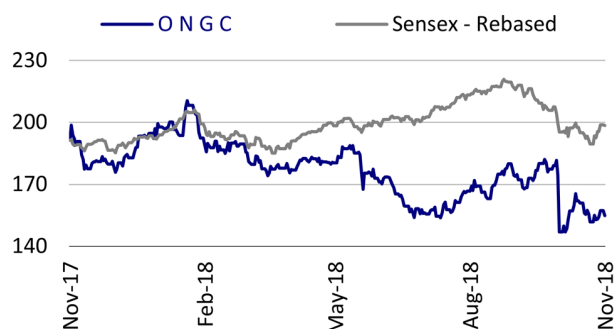
Consolidated- Cash Flow Statement								(INR M)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	367,422	394,134	273,704	191,865	389,075	364,944	588,432	602,930
Depreciation	120,942	185,888	180,277	163,841	202,192	230,885	293,069	311,720
Change in deferred tax	26,452	37,031	2,092	93,415	86,602	47,430	0	0
Direct Taxes Paid	-127,519	-127,604	-96,974	-69,507	-125,484	-131,395	-205,951	-211,026
(Inc)/Dec in WC	-181,830	130,409	-74,555	-125,927	382,124	-375,476	205,307	-35,212
CF from Operations	205,468	619,858	284,543	253,688	934,509	136,388	880,856	668,413
Others	-324	8,194	2,212	232,702	-87,757	50,272	27,351	28,069
CF from Operating incl EO	205,144	628,052	286,755	486,390	846,752	186,659	908,207	696,482
(Inc)/Dec in FA	-355,539	-634,865	-316,264	-17,980	-675,816	-404,501	-430,000	-430,000
Free Cash Flow	-150,396	-6,813	-29,509	468,410	170,936	-217,841	478,207	266,482
(Pur)/Sale of Investments	7,925	-26,177	-32	-359,178	-300,789	34,033	0	0
Others	-11,327	-100,937	-16,822	37,381	12,510	-1,654	0	0
CF from Investments	-358,941	-761,979	-333,118	-339,777	-964,095	-372,121	-430,000	-430,000
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	152,423	251,373	62,832	-73,237	298,521	268,463	-262,461	-150,000
Dividend Paid	-142,636	-95,090	-97,540	-87,520	-104,941	-99,174	-152,844	-161,553
Others	61,328	26,255	-2,761	130,097	-221,035	-65,169	0	0
CF from Fin. Activity	71,115	182,538	-37,469	-30,660	-27,454	104,120	-415,304	-311,553
Inc/Dec of Cash	-82,682	48,611	-83,832	115,953	-144,796	-81,342	62,903	-45,072
Opening Balance	278,896	196,191	244,801	160,969	276,923	132,126	50,784	113,686
Closing Balance	196,213	244,801	160,969	276,922	132,127	50,784	113,686	68,614

Corporate profile

Company description

ONGC, a Fortune 500 company, is an eminent exploration and production (E&P) company in India. 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 several countries. Downstream presence is marked through its subsidiary MRPL & HPCL.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-18	Jun-18	Sep-17
Promoter	67.5	67.5	68.1
DII	13.3	13.6	13.0
FII	5.8	5.4	5.0
Others	13.4	13.6	13.9

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation Of India	9.3
Indian Oil Corporation Limited	7.7
Gail (India) Limited	2.4
Icici Prudential Value Fund - Series 5	1.5

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Shashi Shankar	Chairman & Managing Director
Ajay Kumar Dwivedi	Director (Explorations)
Ganga Murthy	Independent Director
Sambit Patra	Independent Director
Amar Nath	Nominee (Govt)
Rajiv Bansal	Nominee (Govt)
M E V Selvamm	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Subhash Kumar	K M Padmanabhan
Rajesh Kakkar	Satrupt B Misra
Sanjay Kumar Mohitra	Shireesh Balwant Kedare
Ajai Malhotra	Sumit Bose
Deepak Sethi	Vivek Mallya

*Independent

Exhibit 6: Auditors

Name	Type
Chandra Wadhwa & Co	Cost Auditor
Dhananjay V Joshi & Associates	Cost Auditor
M Krishnaswamy & Associates	Cost Auditor
Musib & Co	Cost Auditor
Rohit & Associates	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	31.9	24.7	29.4
FY20	32.7	25.5	28.1

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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