

August 13, 2023

## Q1FY24 Result Update

### Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	5,318	6,848	6,513	6,819
EBITDA (Rs. bn)	858	857	1,143	1,106
Margin (%)	16.1	12.5	17.5	16.2
PAT (Rs. bn)	493	328	600	568
EPS (Rs.)	38.4	25.5	46.7	44.3
Gr. (%)	131.0	(33.5)	82.9	(5.3)
DPS (Rs.)	10.5	11.2	17.1	17.7
Yield (%)	5.9	6.3	9.7	10.0
RoE (%)	20.5	12.1	20.0	16.9
RoCE (%)	16.9	15.7	18.9	17.1
EV/Sales (x)	0.6	0.5	0.5	0.4
EV/EBITDA (x)	3.8	3.8	2.6	2.4
PE (x)	4.6	6.9	3.8	4.0
P/BV (x)	0.9	0.8	0.7	0.6

### Key Data

ONGC.BO | ONGC IN

52-W High / Low	Rs.180 / Rs.122
Sensex / Nifty	65,323 / 19,428
Market Cap	Rs.2,229bn/ \$ 26,910m
Shares Outstanding	12,580m
3M Avg. Daily Value	Rs.1835.9m

### Shareholding Pattern (%)

Promoter's	58.89
Foreign	8.11
Domestic Institution	19.83
Public & Others	13.17
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	7.7	20.8	33.4
Relative	8.1	12.2	21.2

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## Volume growth to be key monitorable

### Quick Pointers:

- Oil and gas production down 3% YoY
- Gas realization declined 22% QoQ to US\$6.7/mmbtu post revision in prices

**ONGC's result were below estimates with EBITDA/PAT of Rs 194.5 bn (+19% Q/Q, PLe: Rs 206.4 bn) and Rs 100.2 bn (vs Net loss of Rs 2.5 bn in Q4FY23, PLe: Rs 107.9 bn) respectively on a standalone basis. Oil production increased marginally 1% QoQ while gas production fell by 1% QoQ. Production volume is expected to increase with commencement of production from KG Basin and we have estimated a 5.4% CAGR and 9% CAGR in oil and gas production, respectively over FY23-FY25. The stock is currently trading at 44.3x FY25 EPS and 2.4x FY25 EV/EBITDA. We maintain our 'Buy' rating with a TP of Rs 218, valuing the standalone business at 6x FY25 adj EPS of Rs 30.5 and add the value of investments of Rs 35.**

**Operating performance improves QoQ:** ONGC's standalone revenue came in at Rs 338.1 bn (down 6.8% QoQ) due to decline in gross oil and gas realization. However, operating profit grew 19% QoQ to Rs 194.5 bn primarily due to a 45% decline in other expenses. There was a sharp 82% QoQ decline in exploratory well costs to Rs 4.9 Bn. PAT came in at Rs 100.2 bn against a net loss of Rs 2.5 bn in Q4.

**Net realization declines QoQ:** ONGC's oil production stood at 5.31 MMT, marginally up 1% QoQ. However, gas production at 5.22 BCM was down 1% QoQ. Total oil and gas production was down 3% YoY. The company stated that the decline was due to shutdown in Panna-Mukta offshore platforms, disruption caused by the cyclone in June and offtake issues in southern India. ONGC Videsh's (OVL) oil production came in at 1.8 MMT, up 6.6% QoQ while gas production at 0.83 BCM was down 14% QoQ. ONGC's crude oil sales for the quarter at 4.72 MMT was up 1% QoQ while gas sales at 4.08 BCM were down 1% QoQ. Net oil realization post accounting for windfall tax at US\$76.5/bbl was marginally down by US\$0.6/bbl, while gas realization at US\$6.7/mmbtu fell 22% QoQ due to revision in domestic prices.

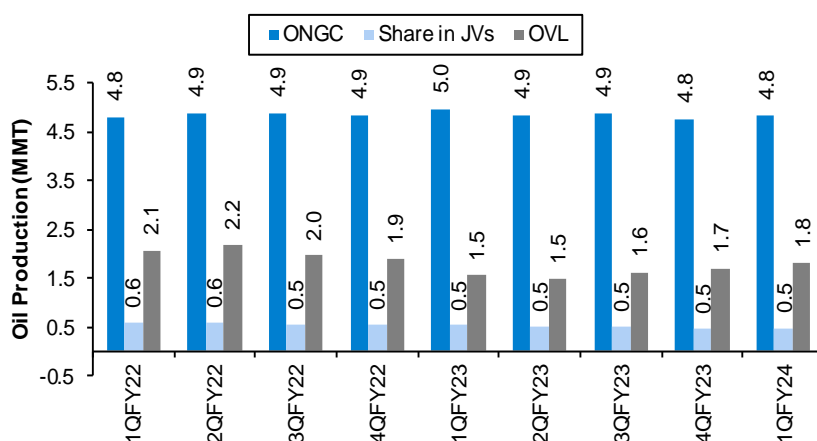
**Company Outlook:** Although crude prices have risen to ~US\$86/bbl, we believe the company's net oil realization is likely to be at around US\$70/bbl post windfall tax. Domestic gas prices have been revised from US\$8.6/mmbtu to a ceiling of US\$6.5/mmbtu for the next two years, with production from new wells attracting a premium pricing of 20%. On the production front, the company expects volumes to rise especially with the commencement of oil production from KG 98/2 in Q3FY24. We build in a 5.4% increase in oil production and 9% increase in gas production. Estimated oil production in FY25 is 23.9 MMT while gas production is 25.4 BCM.

**Exhibit 1: YoY and QoQ Performance**

(Rs bn)	Q1FY24	Q1FY23	YoY gr.	Q4FY23	QoQ gr.
Revenue	338.1	423.2	-20%	362.9	-7%
Operating Profit	194.5	259.3	-25%	163.4	19%
Profit Before Tax	133.6	203.4	-34%	-9.8	NA
Profit After Tax	100.2	152.1	-34%	-2.5	NA
Oil Production (MMT)	5.3	5.5	-3%	5.2	1%
Gas Production (BCM)	5.2	5.4	-3%	5.3	-1%

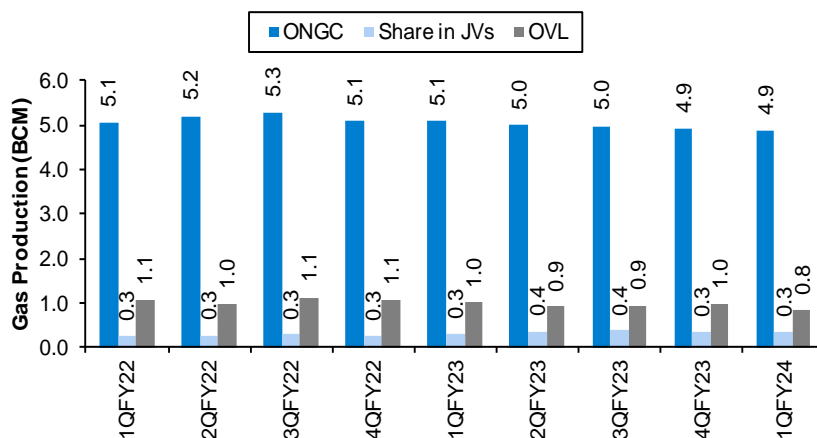
Source: Company, PL

**Exhibit 2: Quarterly oil production trend**



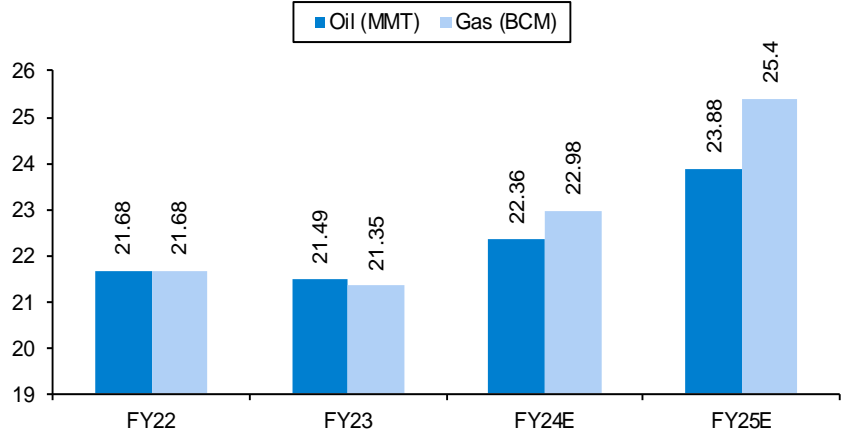
Source: Company, PL

**Exhibit 3: Quarterly gas production trend**



Source: Company, PL

Exhibit 4: Historical and Projected Production



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>53,17,618</b>	<b>68,48,292</b>	<b>65,13,086</b>	<b>68,19,101</b>
YoY gr. (%)	47.5	28.8	(4.9)	4.7
Cost of Goods Sold	44,59,950	59,91,213	53,70,364	57,13,039
Gross Profit	8,57,668	8,57,079	11,42,721	11,06,062
Margin (%)	16.1	12.5	17.5	16.2
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>8,57,668</b>	<b>8,57,079</b>	<b>11,42,721</b>	<b>11,06,062</b>
YoY gr. (%)	51.5	(0.1)	33.3	(3.2)
Margin (%)	16.1	12.5	17.5	16.2
Depreciation and Amortization	2,68,832	2,45,571	3,49,427	3,71,605
<b>EBIT</b>	<b>5,88,836</b>	<b>6,11,509</b>	<b>7,93,294</b>	<b>7,34,458</b>
Margin (%)	11.1	8.9	12.2	10.8
Net Interest	56,960	78,894	83,648	79,336
Other Income	74,376	80,741	92,045	1,04,931
<b>Profit Before Tax</b>	<b>5,26,272</b>	<b>4,30,167</b>	<b>8,01,691</b>	<b>7,60,052</b>
Margin (%)	9.9	6.3	12.3	11.1
Total Tax	47,971	1,02,732	2,01,786	1,91,305
Effective tax rate (%)	9.1	23.9	25.2	25.2
<b>Profit after tax</b>	<b>4,78,301</b>	<b>3,27,436</b>	<b>5,99,905</b>	<b>5,68,747</b>
Minority interest	-	-	-	-
Share Profit from Associate	14,639	341	(305)	(834)
<b>Adjusted PAT</b>	<b>4,92,941</b>	<b>3,27,776</b>	<b>5,99,600</b>	<b>5,67,913</b>
YoY gr. (%)	131.0	(33.5)	82.9	(5.3)
Margin (%)	9.3	4.8	9.2	8.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,78,301</b>	<b>3,27,436</b>	<b>5,99,905</b>	<b>5,68,747</b>
YoY gr. (%)	135.3	(31.5)	83.2	(5.2)
Margin (%)	9.0	4.8	9.2	8.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,78,301	3,27,436	5,99,905	5,68,747
<b>Equity Shares O/s (m)</b>	<b>12,834</b>	<b>12,834</b>	<b>12,834</b>	<b>12,834</b>
<b>EPS (Rs)</b>	<b>38.4</b>	<b>25.5</b>	<b>46.7</b>	<b>44.3</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>50,38,828</b>	<b>52,40,832</b>	<b>53,29,969</b>	<b>54,18,660</b>
Tangibles	50,38,828	52,40,832	53,29,969	54,18,660
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>26,17,216</b>	<b>28,62,786</b>	<b>32,15,146</b>	<b>35,73,434</b>
Tangibles	26,17,216	28,62,786	32,15,146	35,73,434
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>24,21,612</b>	<b>23,78,046</b>	<b>21,14,823</b>	<b>18,45,226</b>
Tangibles	24,21,612	23,78,046	21,14,823	18,45,226
Intangibles	-	-	-	-
Capital Work In Progress	10,67,192	11,39,446	13,53,242	15,51,234
Goodwill	1,12,057	1,20,334	1,20,334	1,20,334
Non-Current Investments	6,76,774	7,98,541	7,98,541	7,98,541
Net Deferred tax assets	(3,49,344)	(2,97,212)	(2,97,212)	(2,97,212)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	5,41,631	4,42,381	5,92,440	6,30,242
Trade receivables	2,16,638	2,13,741	2,04,656	2,14,272
Cash & Bank Balance	68,409	2,91,403	3,47,218	4,12,539
Other Current Assets	4,36,813	4,35,507	4,35,507	4,35,507
<b>Total Assets</b>	<b>58,54,493</b>	<b>61,45,287</b>	<b>63,11,439</b>	<b>63,71,364</b>
<b>Equity</b>				
Equity Share Capital	62,901	62,901	62,901	62,901
Other Equity	25,32,128	27,43,572	31,23,144	34,63,479
<b>Total Network</b>	<b>25,95,029</b>	<b>28,06,473</b>	<b>31,86,046</b>	<b>35,26,381</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	10,77,758	12,91,856	10,98,077	7,68,654
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	-	-	-	-
Other current liabilities	15,60,833	15,19,523	14,99,881	15,48,894
<b>Total Equity &amp; Liabilities</b>	<b>58,54,493</b>	<b>61,45,287</b>	<b>63,11,439</b>	<b>63,71,364</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	5,40,911	4,30,508	8,01,691	7,60,052
Add. Depreciation	2,68,832	2,45,571	3,49,427	3,71,605
Add. Interest	56,960	78,894	83,648	79,336
Less Financial Other Income	74,376	80,741	92,045	1,04,931
Add. Other	11,542	1,56,907	(305)	(834)
Op. profit before WC changes	8,78,245	9,11,878	12,34,461	12,10,159
Net Changes-WC	36,707	83,223	(1,79,407)	(17,195)
Direct tax	(1,34,951)	(1,52,987)	(2,01,786)	(1,91,305)
<b>Net cash from Op. activities</b>	<b>7,80,000</b>	<b>8,42,113</b>	<b>8,53,268</b>	<b>10,01,659</b>
Capital expenditures	(3,30,903)	(3,64,536)	(3,00,000)	(3,00,000)
Interest / Dividend Income	19,462	23,860	-	-
Others	(93,332)	(3,91,414)	-	-
<b>Net Cash from Inv. activities</b>	<b>(4,04,773)</b>	<b>(7,32,090)</b>	<b>(3,00,000)</b>	<b>(3,00,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,29,945)	1,74,342	(1,93,778)	(3,29,423)
Dividend paid	(1,29,238)	(1,76,090)	(2,20,028)	(2,27,578)
Interest paid	(39,139)	(55,074)	(83,648)	(79,336)
Others	(62,602)	(81,299)	-	-
<b>Net cash from Fin. activities</b>	<b>(3,60,924)</b>	<b>(1,38,121)</b>	<b>(4,97,454)</b>	<b>(6,36,337)</b>
<b>Net change in cash</b>	<b>14,304</b>	<b>(28,097)</b>	<b>55,815</b>	<b>65,321</b>
Free Cash Flow	4,49,098	4,77,577	5,53,268	7,01,659

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Revenue</b>	<b>3,83,208</b>	<b>3,85,833</b>	<b>3,62,926</b>	<b>3,38,143</b>
YoY gr. (%)	57.4	35.5	5.2	(20.1)
Raw Material Expenses	(1,434)	18,036	13,212	12,214
Gross Profit	3,84,641	3,67,797	3,49,713	3,25,929
Margin (%)	100.4	95.3	96.4	96.4
<b>EBITDA</b>	<b>1,88,116</b>	<b>2,04,112</b>	<b>1,63,400</b>	<b>1,94,534</b>
YoY gr. (%)	42.2	27.8	(12.1)	(25.0)
Margin (%)	49.1	52.9	45.0	57.5
Depreciation / Depletion	53,147	64,610	93,045	66,970
<b>EBIT</b>	<b>1,34,969</b>	<b>1,39,502</b>	<b>70,355</b>	<b>1,27,564</b>
Margin (%)	35.2	36.2	19.4	37.7
Net Interest	6,669	6,895	7,077	10,077
Other Income	35,294	14,113	19,281	16,119
<b>Profit before Tax</b>	<b>1,63,595</b>	<b>1,46,720</b>	<b>(9,792)</b>	<b>1,33,606</b>
Margin (%)	42.7	38.0	(2.7)	39.5
Total Tax	35,335	36,273	(7,315)	33,455
Effective tax rate (%)	21.6	24.7	74.7	25.0
<b>Profit after Tax</b>	<b>1,28,260</b>	<b>1,10,447</b>	<b>(2,477)</b>	<b>1,00,150</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,28,260</b>	<b>1,10,447</b>	<b>61,779</b>	<b>1,00,150</b>
YoY gr. (%)	50.9	26.0	(30.3)	(34.1)
Margin (%)	33.5	28.6	17.0	29.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,28,260</b>	<b>1,10,447</b>	<b>(2,477)</b>	<b>1,00,150</b>
YoY gr. (%)	(30.1)	26.0	(102.8)	(34.1)
Margin (%)	33.5	28.6	(0.7)	29.6
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,28,260</b>	<b>1,10,447</b>	<b>(2,477)</b>	<b>1,00,150</b>
Avg. Shares O/s (m)	12,834	12,834	12,834	12,834
<b>EPS (Rs)</b>	<b>10.0</b>	<b>8.6</b>	<b>(0.2)</b>	<b>7.8</b>

Source: Company Data, PL Research

## Key Financial Metrics

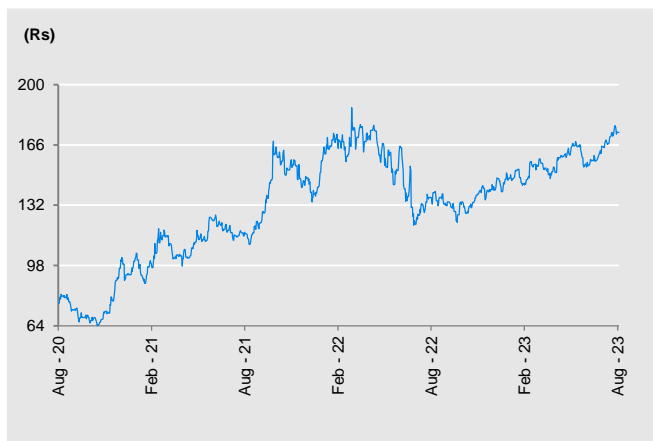
Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	38.4	25.5	46.7	44.3
CEPS	59.4	44.7	73.9	73.2
BVPS	202.2	218.7	248.3	274.8
FCF	35.0	37.2	43.1	54.7
DPS	10.5	11.2	17.1	17.7
<b>Return Ratio(%)</b>				
RoCE	16.9	15.7	18.9	17.1
ROIC	10.2	10.4	13.3	12.3
RoE	20.5	12.1	20.0	16.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.4	0.4	0.2	0.1
Net Working Capital (Days)	-	-	-	-
<b>Valuation(x)</b>				
PER	4.6	6.9	3.8	4.0
P/B	0.9	0.8	0.7	0.6
P/CEPS	58.9	44.3	73.3	72.6
EV/EBITDA	3.8	3.8	2.6	2.4
EV/Sales	0.6	0.5	0.5	0.4
Dividend Yield (%)	5.9	6.3	9.7	10.0

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-23	BUY	210	163
2	06-Apr-23	BUY	210	153
3	15-Feb-23	BUY	190	147
4	03-Jan-23	BUY	180	150
5	15-Nov-22	BUY	180	139
6	01-Oct-22	BUY	160	127

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	495	473
2	Bharti Airtel	Accumulate	935	890
3	Clean Science and Technology	Hold	1,206	1,298
4	Deepak Nitrite	Reduce	1,803	2,092
5	Gujarat Gas	Accumulate	516	455
6	Gujarat State Petronet	BUY	327	276
7	Hindustan Petroleum Corporation	Hold	264	276
8	Mahanagar Gas	Hold	1,056	1,056
9	NOCIL	Hold	230	228
10	Oil India	BUY	341	277

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<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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