

**BUY**

TP: Rs 135 | ▲ 39%

**ONGC**

| Oil &amp; Gas

| 15 February 2021

## Q3 weak; rising oil prices offer respite

ONGC's Q3FY21 EBITDA at Rs 65bn (-47% YoY) underperformed estimates owing to higher operating costs. Q3 highlights: (a) oil/gas production continued to decline (-3.3%/-5.9% YoY), (b) operating costs rose to US\$ 9.5/bbl, and (c) oil and gas realisations were in line at US\$ 43.9/bbl and US\$ 1.8/mmbtu respectively. The recent spike in oil price offers much respite, leading us to raise FY21/FY22/FY23 earnings by 36%/48%/26% as we hike oil price estimates to US\$ 45/55/60 (per barrel). Post rollover, our Mar'22 TP changes to Rs 135 (vs. Rs 104).

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**Higher oil prices to improve cash flows:** The rise in oil price to ~US\$ 63/bbl offers much-needed respite for ONGC, improving its cash flows and alleviating cost headwinds. Domestic gas price increases should follow with a lag in FY22 (revisions due in Apr'21 and Oct'21). OVL's earnings could also get a boost as investments escalate for development of the Mozambique project (first gas expected by FY24). Cash flows for domestic gas projects (KG basin, among others) would improve as these fields can attract a higher gas price.

**Production remains a drag:** Oil and gas production continued to decline as fields remained affected by delays in workover operations and slow recovery in domestic gas demand (mostly from the CNG segment). Per management, production appears to have returned to pre-Covid levels in Q4FY21. Incremental gas production from new fields such as KG-98/2 remains in question as the pandemic has delayed development plans. Management will provide revised guidance on production ramp-up over the next few weeks.

**Valuations trailing oil prices:** ONGC's CMP implies oil at US\$ 45/bbl, trailing the sudden, sharp rise in prices. Given our higher long-term oil price estimate of US\$ 60/bbl, improving cash flows and hence a decline in leverage, we see a strong probability of either increased dividends or buybacks.

Ticker/Price	ONGC IN/Rs 97
Market cap	US\$ 16.8bn
Shares o/s	12,580mn
3M ADV	US\$ 44.5mn
52wk high/low	Rs 108/Rs 50
Promoter/FPI/DII	60%/8%/32%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	4,534,606	4,250,014	3,037,860	3,726,907	4,630,347
EBITDA (Rs mn)	838,648	611,687	571,948	628,743	720,384
Adj. net profit (Rs mn)	348,309	168,256	193,888	241,011	282,032
Adj. EPS (Rs)	27.7	13.4	15.4	19.2	22.4
Adj. EPS growth (%)	51.6	(51.7)	15.2	24.3	17.0
Adj. ROAE (%)	16.4	7.9	9.0	10.3	11.1
Adj. P/E (x)	3.5	7.3	6.3	5.1	4.3
EV/EBITDA (x)	2.4	3.6	3.9	3.5	3.1

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE (STANDALONE)**

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
<b>Net revenues</b>	<b>170,238</b>	<b>237,101</b>	<b>(28.2)</b>	<b>169,171</b>	<b>0.6</b>	<b>469,522</b>	<b>744,610</b>	<b>(36.9)</b>
Employee costs	5,621	6,674	(15.8)	6,161	(8.8)	16,766	19,088	(12.2)
% of sales	3.3	2.8	-	3.6	-	3.6	2.6	-
Other expenditure	99,541	107,455	(7.4)	78,657	26.6	244,249	323,709	(24.5)
% of sales	58.5	45.3	-	46.5	-	52.0	43.5	-
<b>EBITDA</b>	<b>65,077</b>	<b>122,971</b>	<b>(47.1)</b>	<b>84,353</b>	<b>(22.9)</b>	<b>208,507</b>	<b>401,813</b>	<b>(48.1)</b>
EBITDA margin (%)	38.2	51.9	-	49.9	-	44.4	54.0	-
DD&A	44,270	70,196	(36.9)	51,254	(13.6)	145,017	193,520	(25.1)
Interest	4,777	6,264	(23.7)	3,172.10	50.6	12,868	19,542	(34.2)
Other income	12,184	14,025	(13.1)	22,355	(45.5)	38,907	48,102	(19.1)
Exceptional Items	-	-	-	(12,382)	-	(12,382)	-	-
<b>PBT</b>	<b>28,213</b>	<b>60,537</b>	<b>(53.4)</b>	<b>39,900</b>	<b>(29.3)</b>	<b>77,148</b>	<b>236,853</b>	<b>(67.4)</b>
Provision for tax	14,430	18,273	(21.0)	11,122	29.7	24,689	95,903	(74.3)
effective tax rate	51.15	30.18	-	27.87	-	32.00	40.49	-
<b>PAT (adjusted)</b>	<b>13,783</b>	<b>42,264</b>	<b>(67.4)</b>	<b>41,160</b>	<b>(66.5)</b>	<b>64,841</b>	<b>140,950</b>	<b>(54.0)</b>
<b>NPM (%)</b>	<b>8.1</b>	<b>17.8</b>	<b>-</b>	<b>24.3</b>	<b>-</b>	<b>13.8</b>	<b>18.9</b>	<b>-</b>
<b>EPS (adjusted) (Rs/share)</b>	<b>1.1</b>	<b>3.4</b>	<b>(67.4)</b>	<b>3.3</b>	<b>(66.5)</b>	<b>5.2</b>	<b>11.2</b>	<b>(54.0)</b>

Source: Company, BOBCAPS Research

**FIG 2 – VOLUMES**

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
<b>Production</b>								
Oil (mmt)	5.6	5.8	(3.3)	5.7	(0.9)	11.4	11.7	(3.1)
Oil (bpd)	459,130.4	474,619.6	(3.3)	468,626.4	(2.0)	465,204.9	480,000.0	(3.1)
Gas (bcm)	5.8	6.2	(5.9)	5.9	(1.2)	11.4	12.7	(9.9)
Gas (mmscmd)	63.1	67.1	(5.9)	64.6	(2.3)	62.4	69.3	(9.9)
<b>Total (mmtoe)</b>	<b>11.4</b>	<b>12.0</b>	<b>(4.6)</b>	<b>11.6</b>	<b>(1.1)</b>	<b>22.8</b>	<b>24.4</b>	<b>(6.6)</b>
<b>Sales</b>								
Oil (mmt)	5.3	5.2	1.3	5.1	4.5	10.2	10.7	(4.5)
Gas (bcm)	4.5	4.8	(6.4)	4.6	(0.8)	8.8	9.9	(11.3)
<b>Total (mmtoe)</b>	<b>9.8</b>	<b>10.0</b>	<b>(2.4)</b>	<b>9.6</b>	<b>2.0</b>	<b>19.0</b>	<b>20.6</b>	<b>(7.8)</b>

Source: Company, BOBCAPS Research

## Valuation methodology

We raise FY21/FY22/FY23 earnings estimates by 36%/48%/26% as we hike oil price estimates to US\$ 45/55/60 (per barrel). Along with rollover of valuations, our Mar'22 target price rises to Rs 135 (vs. Rs 104). ONGC's current stock price implies oil at US\$ 45/bbl, trailing the sudden, sharp rise in prices. Given our higher long-term oil price estimate of US\$ 60/bbl, improving cash flows and hence a decline in leverage, we see a strong probability of either increased dividends or buybacks. Maintain BUY.

**FIG 3 – REVISED ESTIMATES**

(Rs bn)	FY21E			FY22E			FY23E		
	Old	New	Var (%)	Old	New	Var (%)	New	New	Var (%)
Revenue	2,913	2,985	2.5	3,634	3,727	2.5	4,579	4,630	1.1
EBITDA	442	511	15.7	527	629	19.2	654	721	10.1
EBITDA margin (%)	15.2	17.1	-	14.5	16.9	-	14.3	15.6	-
PAT	109.7	149	36.2	161.3	239	48.4	222	280	26.1
EPS (Rs)	8.7	11.9	36.2	12.8	19.0	48.4	17.7	22.3	26.1

Source: BOBCAPS Research

Our SOTP valuation includes the following:

- core business valued at an unchanged 3x FY23E consolidated cash earnings,
- value of holdings in HPCL (based on our SOTP value for HPCL net of cost of acquisition) and MRPL (unchanged at 6x FY23E EV/EBITDA), and
- investment value of holdings in other listed entities (GAIL, IOCL, etc.) at 20% discount to CMP.

**FIG 4 – VALUATION SUMMARY**

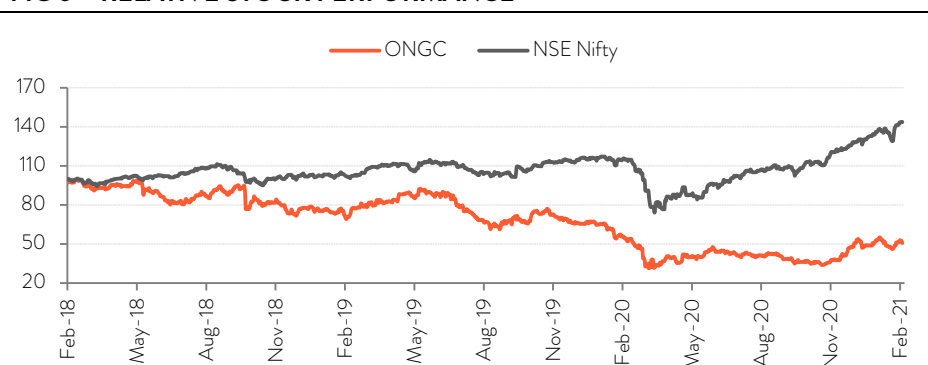
Particulars	Value (Rs bn)	Comments
ONGC/OVL value	1,554	3x FY23E consolidated cash earnings (excluding HPCL and MRPL)
HPCL and MRPL business value (net of costs)	37	As per our SOTP valuation for HPCL (net of costs); MRPL at 6x FY23E EV/EBITDA
<b>Core equity value</b>	<b>1,591</b>	
<b>Core value (Rs/share)</b>	<b>127</b>	<b>6.6x FY23E EPS</b>
Value of holdings (Rs/share)	8	Listed companies @ 20% discount to their CMP (other than MRPL, HPCL)
<b>Value (Rs/share)</b>	<b>135</b>	

Source: BOBCAPS Research

**FIG 5 – KEY ASSUMPTIONS**

	FY21E	FY22E	FY23E
<b>Brent oil price (US\$/bbl)</b>	<b>45</b>	<b>55</b>	<b>60</b>
<b>USDINR</b>	<b>73.5</b>	<b>74</b>	<b>75</b>
<b>ONGC (incl. JV)</b>			
Crude production (mmt)	22.6	22.6	22.6
Gas production (bcm)	24.34	25.8	25.8
APM Gas price (US\$/mmbtu)	3.0	3.3	3.6
<b>OVL</b>			
Crude production (mmt)	10.1	10.1	10.1
Gas production (bcm)	5.0	5.3	5.3
<b>MRPL</b>			
Refining throughput (mmtpa)	16.5	16.5	16.5
GRM (US\$/bbl)	4.0	6.0	6.0

Source: BOBCAPS Research

**FIG 6 – RELATIVE STOCK PERFORMANCE**

Source: NSE

## Key risks

Key downside risks to our estimates are:

- lower-than-expected oil and gas prices,
- delay or abandonment of Mozambique development (ONGC has invested >US\$ 6bn in Mozambique Area 1 fields for a 16% stake),
- revival of any upstream oil subsidy mechanism by the government, and
- forced M&A with any other public sector company.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>4,534,606</b>	<b>4,250,014</b>	<b>3,037,860</b>	<b>3,726,907</b>	<b>4,630,347</b>
EBITDA	838,648	611,687	571,948	628,743	720,384
Depreciation	(332,469)	(356,583)	(370,765)	(389,624)	(414,146)
EBIT	506,179	255,104	201,184	239,120	306,238
Net interest income/(expenses)	(58,367)	(69,998)	(58,361)	(56,851)	(64,517)
Other income/(expenses)	81,488	85,316	107,479	132,601	129,411
Exceptional items	(15,910)	(90,285)	0	0	0
EBT	529,299	270,422	250,302	314,869	371,132
Income taxes	(208,802)	(75,080)	(66,958)	(84,403)	(99,644)
Min. int./Inc. from associates	34,283	10,544	10,544	10,544	10,544
<b>Reported net profit</b>	<b>338,870</b>	<b>115,601</b>	<b>193,888</b>	<b>241,011</b>	<b>282,032</b>
<b>Adjusted net profit</b>	<b>348,309</b>	<b>168,256</b>	<b>193,888</b>	<b>241,011</b>	<b>282,032</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	305,575	229,679	176,599	246,438	330,272
Other current liabilities	452,175	589,312	574,640	600,377	634,873
Provisions	322,323	372,878	375,832	376,544	377,246
Debt funds	1,026,716	1,137,925	1,218,747	1,381,071	1,647,189
Other liabilities	456,357	434,725	445,315	459,772	477,699
Equity capital	62,901	62,901	62,901	62,901	62,901
Reserves & surplus	2,142,314	2,006,634	2,172,695	2,365,051	2,581,506
Shareholders' fund	2,205,216	2,069,536	2,235,597	2,427,952	2,644,408
<b>Total liabilities and equities</b>	<b>4,949,424</b>	<b>5,012,183</b>	<b>5,204,857</b>	<b>5,670,283</b>	<b>6,289,816</b>
Cash and cash eq.	41,059	57,041	323,444	283,972	396,785
Accounts receivables	174,533	115,475	107,341	126,957	154,107
Inventories	351,807	330,512	324,323	398,818	495,966
Other current assets	358,820	395,072	226,849	303,770	374,402
Investments	669,112	506,403	566,592	631,845	697,139
Net fixed assets	2,522,648	2,626,989	2,659,271	2,885,183	3,103,306
CWIP	690,563	838,324	854,671	897,371	925,744
Intangible assets	140,884	142,367	142,367	142,367	142,367
<b>Total assets</b>	<b>4,949,424</b>	<b>5,012,183</b>	<b>5,204,857</b>	<b>5,670,283</b>	<b>6,289,816</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	703,032	435,921	629,427	691,023	741,487
Changes in working capital	218,857	155,896	117,749	(74,745)	(75,896)
Other operating cash flows	(24,280)	(16,663)	(96,889)	(118,143)	(111,484)
<b>Cash flow from operations</b>	<b>897,609</b>	<b>575,154</b>	<b>650,287</b>	<b>498,135</b>	<b>554,107</b>
Capital expenditures	(843,703)	(572,421)	(484,168)	(718,625)	(705,951)
Change in investments	4,234	162,709	(60,189)	(65,252)	(65,295)
Other investing cash flows	81,488	85,316	107,479	132,601	129,411
<b>Cash flow from investing</b>	<b>(757,981)</b>	<b>(324,397)</b>	<b>(436,878)</b>	<b>(651,276)</b>	<b>(641,835)</b>
Debt raised/repaid	14,256	111,209	80,822	162,325	266,118
Dividends paid	(103,033)	(93,954)	(27,827)	(48,655)	(65,577)
Other financing cash flows	(60,576)	(252,029)	0	0	0
<b>Cash flow from financing</b>	<b>(149,353)</b>	<b>(234,775)</b>	<b>52,995</b>	<b>113,670</b>	<b>200,541</b>
<b>Changes in cash and cash eq.</b>	<b>(9,725)</b>	<b>15,983</b>	<b>266,403</b>	<b>(39,472)</b>	<b>112,813</b>
<b>Closing cash and cash eq.</b>	<b>41,059</b>	<b>57,041</b>	<b>323,444</b>	<b>283,972</b>	<b>396,785</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	26.9	9.2	15.4	19.2	22.4
Adjusted EPS	27.7	13.4	15.4	19.2	22.4
Dividend per share	7.0	6.4	1.9	3.3	4.5
Book value per share	175.3	164.5	177.7	193.0	210.2

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.4	0.5	0.7	0.6	0.5
EV/EBITDA	2.4	3.6	3.9	3.5	3.1
Adjusted P/E	3.5	7.3	6.3	5.1	4.3
P/BV	0.6	0.6	0.5	0.5	0.5

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	67.8	93.4	77.5	76.5	76.0
Interest burden (PBT/EBIT)	101.4	70.6	124.4	131.7	121.2
EBIT margin (EBIT/Revenue)	11.2	6.0	6.6	6.4	6.6
Asset turnover (Revenue/Avg TA)	94.9	85.3	59.5	68.5	77.4
Leverage (Avg TA/Avg Equity)	2.2	2.3	2.4	2.3	2.4
Adjusted ROAE	16.4	7.9	9.0	10.3	11.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

### Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	25.2	(6.3)	(28.5)	22.7	24.2
EBITDA	27.4	(27.1)	(6.5)	9.9	14.6
Adjusted EPS	51.6	(51.7)	15.2	24.3	17.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	18.5	14.4	18.8	16.9	15.6
EBIT margin	11.2	6.0	6.6	6.4	6.6
Adjusted profit margin	7.7	4.0	6.4	6.5	6.1
Adjusted ROAE	16.4	7.9	9.0	10.3	11.1
ROCE	9.1	4.4	4.2	4.6	5.3
<b>Working capital days (days)</b>					
Receivables	13	12	13	11	11
Inventory	45	47	70	58	54
Payables	28	27	30	25	27
<b>Ratios (x)</b>					
Gross asset turnover	0.9	0.8	0.5	0.6	0.7
Current ratio	0.6	0.6	0.6	0.6	0.7
Net interest coverage ratio	8.7	3.6	3.4	4.2	4.7
Adjusted debt/equity	0.4	0.5	0.4	0.5	0.5

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

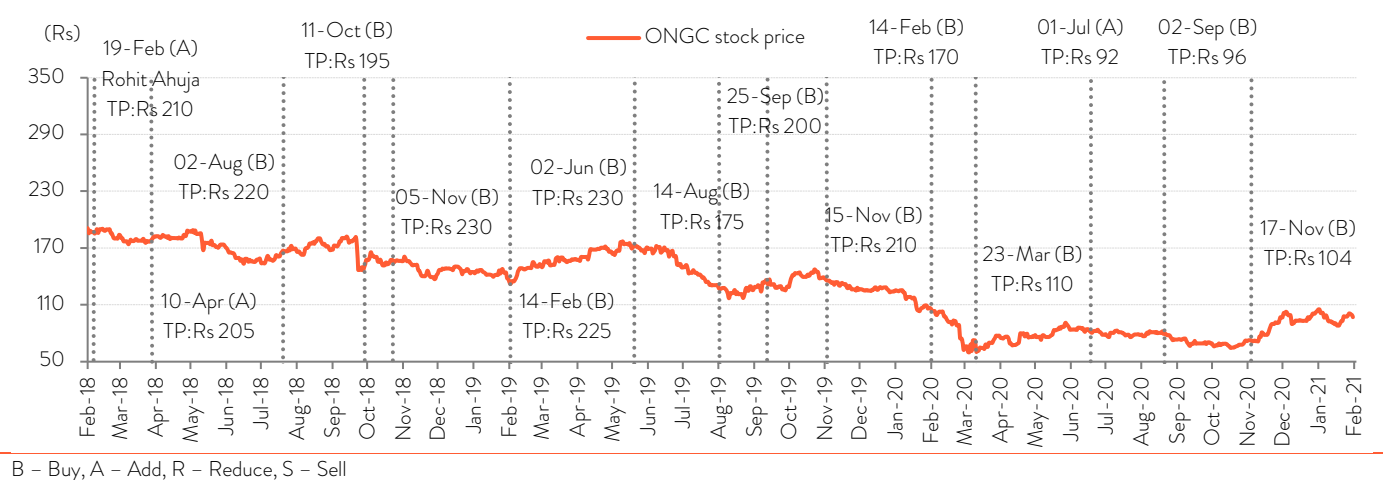
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): ONGC (ONGC IN)



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