

November 12, 2024

RESULT REPORT Q2 FY25 | Sector: Energy

Oil and Natural Gas Corporation

EBITDA meets estimates; production subpar, while PAT marginally beats on lower taxes

ONGC's Q2FY25 earnings saw in line EBITDA despite a lower crude and gas production and sales. The crude net realization was higher than our estimated while PAT marginally beats on lower taxes. Crude production experienced YoY & QoQ decline, and natural gas saw YoY decline but marginal QoQ recovery, an increase in production from both oil & gas, especially from KG basin remains the key. Other expenses and other income were in line, there was dividend income of Rs30.7bn. OVL's topline performance improved in crude but declined in gas with the volumes increased for crude and lagged in gas production. OVL's profitability deteriorated YoY & QoQ. We maintain a BUY rating on ONGC, with a revised TP of Rs 355/sh.

Result Highlights

- Performance:** EBITDA/Adj. PAT was at Rs 182.4/119.8bn was -0.7/+17.3% YoY and -2%/+34.1% QoQ. (note: Exploration write-off costs are taken below EBITDA). EBITDA was in line with our estimates despite marginally lower product sales while PAT surpassed expectations on lower taxes and production for oil & gas remained subpar.
- Crude production:** was down 1.7% YoY and 1.5% QoQ to 5.16mmt (was lower than the company target), the shortfall is primarily due to delays in key projects compounded by water cut issues and torrential disruptions causing power outages. **Natural gas production:** was down 2.7% YoY but up 1% QoQ to 5.06bcm, below target on underperformance from wells, reservoir decline in Ankleshwar, delays in well drilling, pipeline connections in Tripura, planned well closures.
- Crude and Gas realization:** Net crude realization was up 0.4% YoY and 0.6% QoQ to USD 74.9/bbl. The gas realization was at USD 6.5/mmbtu. Windfall taxes stood at USD 3.5/bbl vs USD8.6/bbl the last quarter.
- Depreciation** including exploratory write-off stood at Rs 68.1bn up 14.3% YoY but down 9.7% QoQ. **Finding cost:** increased to 10/bbl, below last 3 years' average. The statutory levies as a % of revenue stood at 23.1% (versus 30.7% YoY and 27.7% QoQ).
- Other expenses** at Rs 56.5bn (was up 4% YoY and 6% QoQ). The **other income** at Rs47.6bn, up 128.5% YoY and 131.2% QoQ, including a dividend income of Rs30.7bn in line to our expectations.
- OVL performance:** production for crude at 1.82mmt (vs 1.77 YoY and 1.79 QoQ) and gas at 0.71bcm (vs 0.81bcm YoY and 0.72bcm QoQ) was weakest ever. The EBITDA at Rs 9.9bn was down 2.7% YoY and 15.5% QoQ while PAT at Rs 3.3bn was up 2.5% YoY but down 28% QoQ. **OPAL stake:** During the quarter, following an approval from MoP&NG, ONGC has converted a portion of its Compulsory Convertible Debentures (CCD) worth Rs61bn into equity, raising its shareholding in OPaL from 49.36% to 95.69%, total investment at Rs 183.7bn.
- H1FY25 Performance:** EBITDA/Adj. PAT was at Rs 368.5/209.2bn vs Rs 378.1/202.3bn in H1FY24. Crude production was down 1.6% at 10.4 mmt, natural gas production was down 3.4% at 10.1bcm. Net crude realization was down 1.2% to USD74.6/bbl. **Dividend:** Board approved an interim dividend of Rs 6/sh (!36% payout on H1 earnings) with 20th Nov'24 being the record date.

Valuation

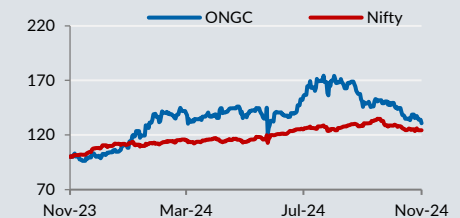
We maintain a BUY rating on ONGC, with a revised TP of Rs 355/sh (Rs 402 earlier). Our TP of Rs 355/sh comprises of a) Rs 291/sh for the stand-alone domestic business, valued on 4x EV/EBITDA FY27e, b) Rs 5.7/sh for OVL on PER of 8x FY27e, c) Rs 58/sh for investment in listed equities, valued at 30% hold-co discount to market price.

Reco	: BUY
CMP	: Rs 256
Target Price	: Rs 355
Potential Return	: +38.6%

Stock data (as on Nov 12, 2024)

Nifty	23,883
52 Week h/l (Rs)	345 / 188
Market cap (Rs/USD mn)	3231874 / 38313
Outstanding Shares (mn)	12,580
6m Avg t/o (Rs mn):	5,739
Div yield (%):	4.3
Bloomberg code:	ONGC IN
NSE code:	ONGC

Stock performance



	1M	3M	1Y
Absolute return	-12.4%	-24.9%	30.2%

Shareholding pattern (As of Sep '24 end)

Promoter	58.9%
FII+DII	37.6%
Others	3.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	355	402

Δ in estimates

(1-Yr)	FY25e	FY26e	FY27e
EPS (New)	27.7	25.7	27.9
EPS (Old)	28.5	28.0	28.3
% Change	(2.7)	(8.3)	(1.5)

Financial Summary

(Rs bn)	FY25E	FY26E	FY27E
Revenue	1,340.4	1,318.9	1,387.6
YoY Growth	(3.2)	(1.6)	5.2
EBIDTA	690.4	685.7	728.1
OPM %	51.5	52.0	52.5
PAT	348.5	323.6	350.5
YoY Growth	(14.0)	(7.1)	8.3
ROE	11.0	9.6	9.8
EPS	27.7	25.7	27.9
P/E	9.2	10.0	9.2
BV	259.9	275.7	292.5
EV/EBITDA	4.1	3.9	3.4

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Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	338,809	335,998	342,925	0.84	-1.20	EBITDA meets estimates; production subpar, while PAT marginally beats on lower taxes
EBITDA	182,364	183,286	184,098	-0.50	-0.94	
EBITDA Margin (%)	53.82	54.55	53.68	-72bps	14bps	
Adjusted PAT	119,840	115,865	101,532	3.43	18.03	

Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	y/y (%)	q/q (%)	H1FY24	H1FY25	y/y (%)
Revenue	351,630	347,881	346,367	352,664	338,809	(3.6)	(3.9)	689,774	691,473	0.2
Expenditure	168,033	176,246	172,301	166,490	156,445	(6.9)	(6.0)	311,642	322,935	3.6
-Raw Material	(807)	18,409	466	8,608	13,963	(1,830.0)	62.2	11,407	22,570	97.9
-Staff Cost	6,621	7,159	6,847	7,064	7,709	16.4	9.1	13,841	14,773	6.7
- Other Expenses	162,219	150,678	164,989	150,818	134,773	(16.9)	(10.6)	286,394	285,591	(0.3)
Operating Profit	183,598	171,635	174,066	186,174	182,364	(0.7)	(2.0)	378,132	368,538	(2.5)
OPM(%)	52.2	49.3	50.3	52.8	53.8	161 bps	103 bps	54.8	53.3	-152 bps
Other Income	20,857	34,007	36,800	20,609	47,656	128.5	131.2	36,975	68,265	84.6
Depreciation	59,575	74,067	71,913	75,400	68,093	14.3	(9.7)	126,545	143,493	13.4
Interest	10,160	10,227	10,349	11,822	11,567	13.8	(2.2)	20,237	23,389	15.6
Excpnl Loss/(Profit)	-	-	-	-	-	-	-	-	-	-
PBT	134,720	121,347	128,604	119,561	150,360	11.6	25.8	268,325	269,921	0.6
Tax	32,556	25,991	29,910	30,180	30,520	(6.3)	1.1	66,012	60,700	(8.0)
PAT	102,163	95,357	98,694	89,381	119,840	17.3	34.1	202,314	209,221	3.4
Adj PAT	102,163	95,357	98,694	89,381	119,840	17.3	34.1	202,314	209,221	3.4

Source: Company, YES Sec

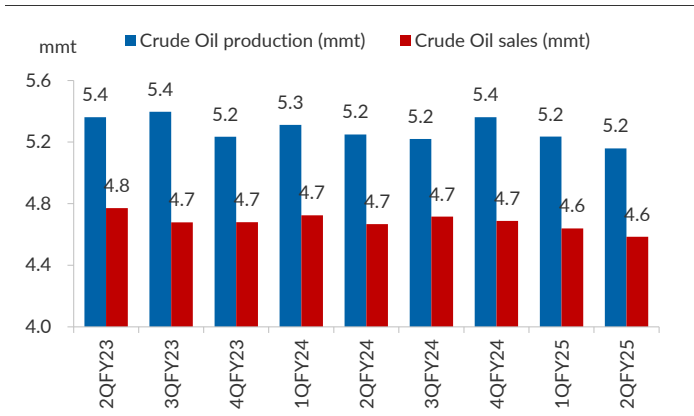
Exhibit 3: Operating highlights

Particulars	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	y/y (%)	q/q (%)	H1FY24	H1FY25	y/y (%)
Production Volumes										
Crude (mmt)										
ONGC	4.8	4.8	4.8	4.7	4.6	(3.0)	(1.4)	9.6	9.3	(3.0)
JV	0.5	0.4	0.6	0.5	0.5	11.3	(2.4)	0.9	1.1	12.7
Total (incl. JV)	5.2	5.2	5.4	5.2	5.2	(1.7)	(1.5)	10.6	10.4	(1.6)
Gas (bcm)										
ONGC	4.9	4.8	4.8	4.7	4.7	(2.9)	1.1	9.8	9.4	(3.5)
JV	0.3	0.3	0.3	0.3	0.3	0.6	(0.3)	0.7	0.7	(1.3)
Total (incl. JV)	5.2	5.1	5.1	5.0	5.1	(2.7)	1.0	10.4	10.1	(3.4)
Total Crude + Gas	10.4	10.3	10.5	10.2	10.2	(2.2)	(0.2)	21.0	20.5	(2.5)
Crude Oil Realisation (US\$/bbl)										
Pre subsidy	84.8	81.6	80.8	83.1	78.3	(7.7)	(5.7)	81.7	80.7	(1.3)
Post subsidy	74.6	73.5	75.0	74.4	74.9	0.4	0.6	75.5	74.6	(1.2)
Post subsidy (Rs/bbl)	6,164	6,120	6,227	6,209	6,271	1.7	1.0	6,227	6,240	0.2
OVL Performance										
Revenue	26,680	24,400	37,300	30,140	27,870	4.5	(7.5)	50,288	58,010	15.4
PBT	10,120	9,140	18,800	11,660	9,850	(2.7)	(15.5)	18,560	21,510	15.9

Particulars	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	y/y (%)	q/q (%)	H1FY24	H1FY25	y/y (%)
PAT	3,260	1,810	560	4,640	3,340	2.5	(28.0)	4,520	7,980	76.5
Production										
Crude (mmt)	1.8	1.8	1.8	1.8	1.8	2.7	1.5	3.6	3.6	0.9
Gas (bcm)	0.8	0.9	0.8	0.7	0.7	(12.6)	(2.4)	1.6	1.4	(12.9)

Source: Company, YES Sec

Exhibit 4: Crude Oil production and sales



Source: Company, YES Sec

Exhibit 5: Natural Gas Production and sales

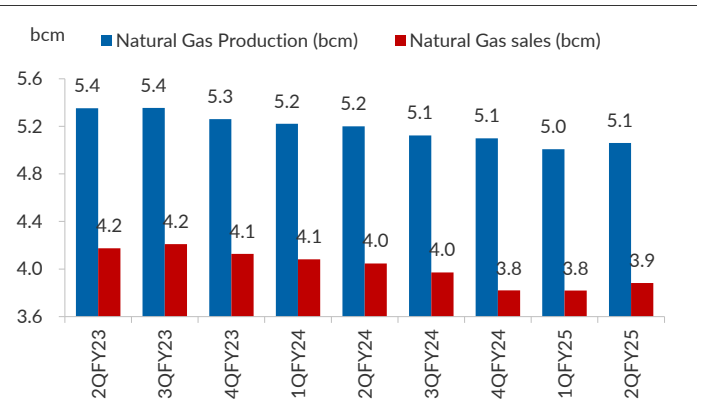
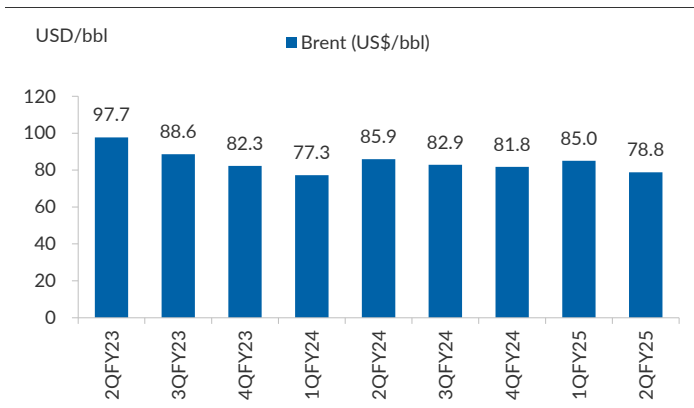


Exhibit 6: Brent



Source: Company, YES Sec

Exhibit 7: Net realization & Prem./ (Dis.) to Brent (%)

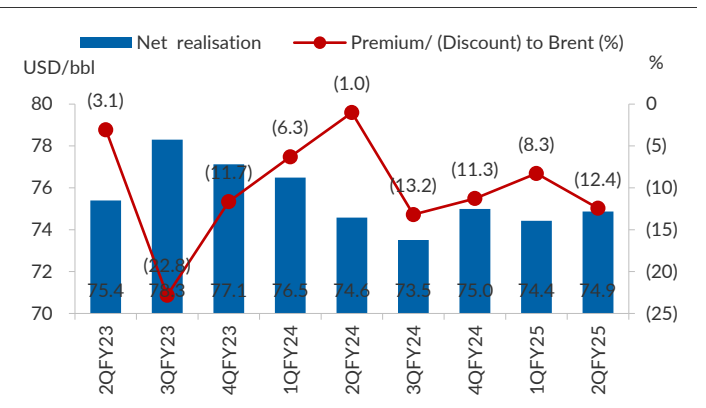
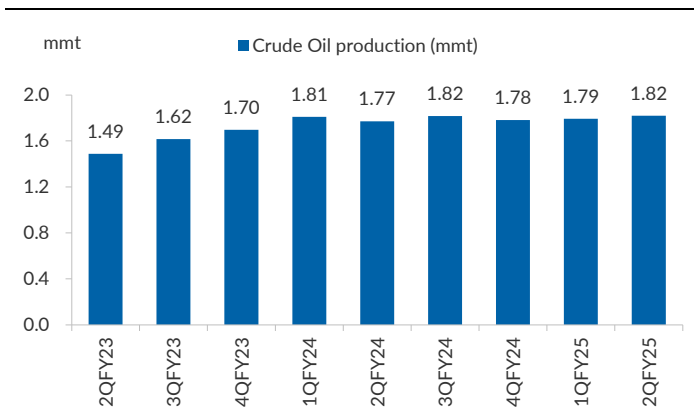
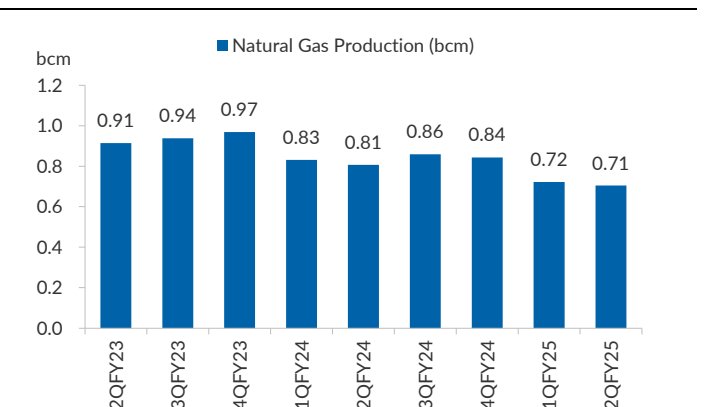


Exhibit 8: OVL Crude Oil production



Source: Company, YES Sec

Exhibit 9: OVL Natural Gas Production



CONCALL HIGHLIGHTS

- **Bottoming of standalone production decline:** ONGC reversed its declining trend in crude oil production. Standalone crude oil production (excluding condensate) in Q2FY25 was 4.576mmt, marking a 0.7% YoY growth, while H1FY25 production stood at 9.204mmt, an increase of 0.8% YoY. Gas production decline moderated from 3.6% in Q1FY25 to 2.1% in Q2FY25 YoY. In Sep'24, gas production grew by 0.3% YoY.
- **Production guidance:** FY25 overall production to reach 41.9mmtoe increasing to 44.9mmtoe by FY26 consisting of 22.8mmt of oil and 22.1bcm of gas. FY27 target reaches 46.2mmtoe.
- **KG DW-98/2:** the production has reached 25,000bopd of oil and 2.5mmcmd of gas from the East Coast. Oil production to reach 45,000bopd by end FY25 while Gas production is expected to increase to ~10mmcmd by FY25-end or early FY26. Three new oil wells were operationalized on 30th Oct'24, enhancing total oil output to 25,000bopd from eight flowing wells. Five additional oil wells are planned to open shortly.
- **Western Offshore Projects:** Contracts signed with L&T for the Daman Upside Development Project and Pipeline Replacement Project, Group B, expected to add ~5mmcmd of gas. Mazagon Dock Ltd. was awarded a contract on 8th Aug'24 for DSF-II block development, likely adding ~4mmcmd of gas. Both projects are expected to complete by FY26.
- **New Well Gas (NWG):** Since 8th Aug'24, NWG production has reached 4.68mmcmd (priced at USD9-10/mmbtu), excluding KG Basin volumes. Decline rates of 6-7% are expected, and 7.5% is set by Indian government, any decline below this would be classified as NWG. NWG from nominated fields does not include C2-C3 volumes of 2.76mmcmd.
- **Capex Plans:** H1FY25 capex was Rs240bn, of which Rs60bn was infused into OPaL. The FY25 annual target is Rs320bn, while FY26 & FY27 capex is guided at Rs340-360bn each year.
- **OPaL Performance:** Investments in OPaL now total Rs183.65bn, including a recent Rs132bn infusion. Debt stands at Rs140bn. Q2FY25 utilization was 94%, generating revenue of Rs36.64bn, EBITDA of Rs786.7mn, and a PAT loss of Rs6.37bn. Feedstock includes 40% naphtha and rest LNG. It is assured up to 3.2mmcmd of NWG for five years. Profitability is expected to remain subdued in FY25, with a turnaround projected from FY26 barring adverse changes in product or feedstock prices.
- **OVL Update:** OVL has 32 assets—11 exploratory, 14 producing, 4 development, and 3 pipeline assets. Key regions include Russia (3 assets), Mozambique (1), Venezuela (2), Colombia (2), Myanmar (6), and Vietnam (2). FY25 production is targeted at 10.5mmtoe, with 5.039mmtoe achieved in H1FY25. Average production from Russian assets stands at ~194,000bopd in FY25 compared to 201,000bopd in FY24 due to the ongoing conflict. Progress in Venezuela remains stalled due to renewed sanctions after Apr'24.
- **RLNG Marketing:** ONGC entered the RLNG marketing segment, selling over 32mmcmd on the Indian Gas Exchange (IGX) by 25th Oct'24.
- **LNG MSPA Agreements:** In Aug'24, ONGC signed its first LNG Master Sale and Purchase Agreements with Emirates National Oil Company (ENOC) and Gunvor Singapore Pte. Ltd., strengthening its LNG sourcing capabilities.
- **Dividend Receipts:** ONGC received Rs30.71bn in dividends during Q2FY25, comprising Rs14.04bn from IOCL, Rs12.85bn from HPCL, Rs2.51bn from MRPL, Rs0.75bn from OVL, and Rs0.56bn from PLNG.

VIEW & VALUATION

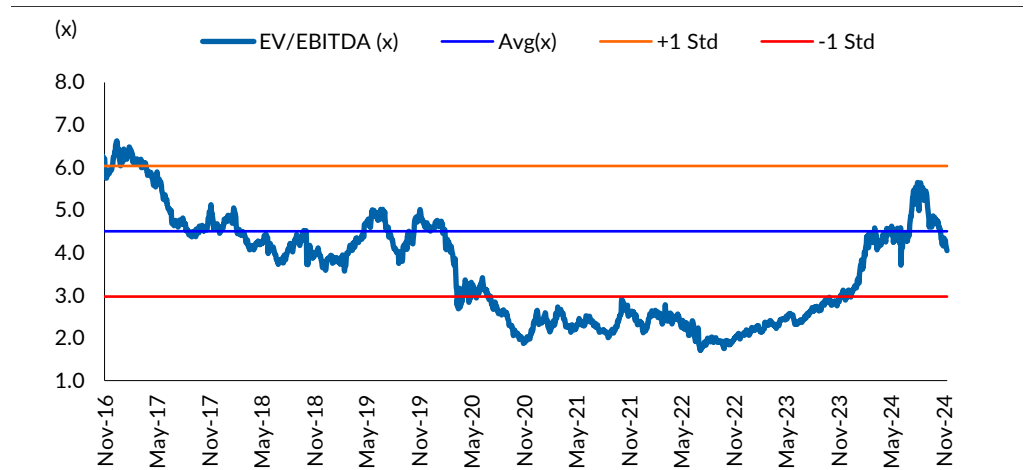
BUY with a TP of Rs 355/sh.

We maintain a BUY rating on ONGC, with a revised TP of Rs 355/sh (Rs 402 earlier). Our TP of Rs 355/sh comprises of a) Rs 291/sh for the stand-alone domestic business, valued on 4x EV/EBITDA FY27e, b) Rs 5.7/sh for OVL on PER of 8x FY27e, c) Rs 58/sh for investment in listed equities, valued at 30% hold-co discount to market price.

Exhibit 10: Valuation Table

Valuation	FY27e
EV/EBITDA (based)	728,071
EV/EBITDA (multiple)	4.0
EV	2,912,282
Net Debt	- 744,640
M-Cap	3,656,922
Core Value	291
Add: Value of Investments (30% discount)	
MRPL	11.0
HPCL	24.7
GAIL	3.7
IOCL	15.7
PLNG	3.4
Total	58.4
OVL Value	5.7
Target Price	355

Exhibit 11: EV/EBITDA (x) band, one-year-forward



FINANCIALS

Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	1,555,173	1,384,021	1,340,408	1,318,877	1,387,581
Total Expense	740,231	660,184	649,979	633,197	659,510
Operating Profit	814,943	723,838	690,429	685,680	728,071
Other Income	76,266	107,782	101,311	96,691	99,736
Depreciation	250,972	260,644	290,606	311,177	320,874
EBIT	640,236	570,975	501,133	471,194	506,933
Interest	26,996	40,813	40,813	40,813	40,813
Extraordinary Item	(92,351)	-	-	-	-
PBT	520,889	530,162	460,320	430,381	466,120
Tax	119,924	124,903	111,858	106,735	115,598
PAT	400,965	405,260	348,462	323,647	350,522
Adj. PAT	493,316	405,260	348,462	323,647	350,522
Adj. EPS	31.9	32.2	27.7	25.7	27.9

Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	62,901	62,901	62,901	62,901	62,901
Reserves	2,536,822	2,996,864	3,206,951	3,404,802	3,616,949
Net worth	2,599,723	3,059,765	3,269,853	3,467,704	3,679,851
Debt	72,189	61,093	61,093	61,093	61,093
Deferred tax liab (net)	224,760	247,088	247,088	247,088	247,088
Capital Employed	2,896,672	3,367,946	3,578,033	3,775,885	3,988,032
Fixed assets	1,908,232	2,322,359	2,371,560	2,410,443	2,436,615
Investments	849,856	1,053,714	1,053,714	1,053,714	1,053,714
Net working capital	138,584	(8,127)	152,760	311,728	497,703
Inventories	83,207	109,093	105,655	103,958	109,374
Sundry debtors	102,503	114,097	110,502	108,727	114,391
Cash & Bank Balance	216,340	300,313	466,221	627,669	805,733
Other current assets	538,646	560,633	560,633	560,633	560,633
Sundry creditors	62,556	63,821	61,810	60,817	63,985
Other liabilities	739,556	1,028,442	1,028,442	1,028,442	1,028,442
Application of Funds	2,896,672	3,367,946	3,578,033	3,775,885	3,988,032

Exhibit 14: Cash flow statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	520,889	530,162	460,320	430,381	466,120
Depreciation & amortization	168,196	204,957	290,606	311,177	320,874
Interest expense	26,996	40,813	40,813	40,813	40,813
(Inc)/Dec in working capital	(53,260)	(80,318)	-	-	-
Tax paid	85,398	24,109	5,022	2,479	(7,911)
Less: Interest/Dividend Income Received	(128,448)	(118,682)	(111,858)	(106,735)	(115,598)
Other operating Cash Flow	188,609	52,314	-	-	-
Cash flow from operating activities	808,378	653,355	684,904	678,116	704,298
Capital expenditure	(219,924)	(242,128)	(339,807)	(350,060)	(347,046)
Inc/(Dec) in investments	43,379	70,976	-	-	-
Add: Interest/Dividend Income Received	(397,108)	(255,784)	-	-	-
Cash flow from investing activities	(573,653)	(426,936)	(339,807)	(350,060)	(347,046)
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	(51,698)	(80,860)	-	-	-
Interest Paid	(6,666)	(17,037)	(40,813)	(40,813)	(40,813)
Dividend Paid	(176,090)	(128,949)	(138,375)	(125,795)	(138,375)
Others	-	-	-	-	-
Cash flow from financing activities	(234,454)	(226,846)	(179,188)	(166,609)	(179,188)
Net cash flow	271	(426)	165,908	161,447	178,064

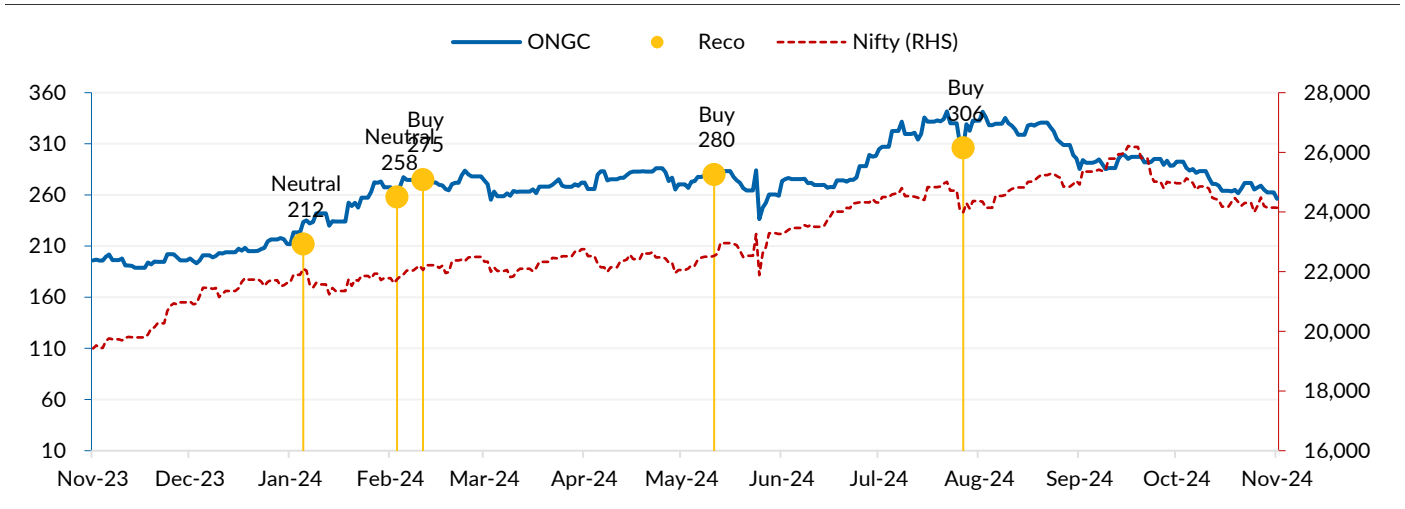
Exhibit 15: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Interest burden (x)	0.8	0.9	0.9	0.9	0.9
EBIT margin (x)	0.4	0.4	0.4	0.4	0.4
Asset turnover (x)	0.4	0.3	0.3	0.3	0.3
Financial leverage (x)	1.4	1.4	1.4	1.4	1.4
RoE (%)	16.1	14.3	11.0	9.6	9.8

Exhibit 16: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)					
Revenue growth	40.9	(11.0)	(3.2)	(1.6)	5.2
Op profit growth	36.0	(11.2)	(4.6)	(0.7)	6.2
EBIT growth	47.5	(10.8)	(12.2)	(6.0)	7.6
Net profit growth	(0.5)	1.1	(14.0)	(7.1)	8.3
Profitability ratios (%)					
OPM	52.4	52.3	51.5	52.0	52.5
EBIT margin	41.2	41.3	37.4	35.7	36.5
Net profit margin	25.8	29.3	26.0	24.5	25.3
RoCE	23.2	18.2	14.4	12.8	13.1
RoE	16.1	14.3	11.0	9.6	9.8
RoA	11.3	9.9	7.6	6.8	7.0
Per share ratios					
EPS	31.9	32.2	27.7	25.7	27.9
Dividend per share	11.3	12.3	11.0	10.0	11.0
Cash EPS	51.8	52.9	50.8	50.5	53.4
Book value per share	206.7	243.2	259.9	275.7	292.5
Valuation ratios					
P/E	8.0	7.9	9.2	10.0	9.2
P/CEPS	4.9	4.8	5.0	5.1	4.8
P/B	1.2	1.1	1.0	0.9	0.9
EV/EBIDTA	3.8	4.1	4.1	3.9	3.4
Payout (%)					
Dividend payout	35.3	38.0	39.7	38.9	39.5
Tax payout	23.0	23.6	24.3	24.8	24.8
Liquidity ratios					
Debtor days	24.1	30.1	30.1	30.1	30.1
Inventory days	39.9	53.2	60.3	60.4	59.0
Creditor days	30.6	34.9	35.3	35.3	34.5

Recommendation Tracker



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