

Sector Update

Upstream: Enough steam left

Quick Pointers:

- Oil prices to normalize back to USD75-80/bbl in the near term
- Premium pricing on gas produced from new wells to boost upstream earnings

Recent global developments leading to ample supplies amid weaker demand prospects have pushed Brent oil prices to lows of ~USD71/bbl. While upstream earnings are currently impacted, with the OPEC+ delaying its planned rise in production, we expect oil prices to rebound to USD75-80/bbl in the near term. Thus, net oil realization should bounce back to ~USD75/bbl. Additionally, APM price is set to rise in FY26E and gas produced from new wells would attract premium pricing. These bode well for upstream players. We upgrade our rating on ONGC from 'Hold' to 'Accumulate' with a TP of Rs329 based on 9x FY26 adj EPS and adding the value of investments. We maintain 'Buy' on OINL with a TP of Rs786 based on 12x FY26 adj EPS and adding the value of investments.

- Normalization of crude prices likely:** Last week, reports of resolution of a dispute that had halted Libyan crude supply, led to the Brent falling to ~USD71/bbl owing to ample supplies amid a weak demand outlook. As per Wood Mackenzie, marginal cost of production at fag end of the cost curve is upwards of USD70/bbl. Thus, oil prices are not expected to remain below USD70/bbl for long.
- OPEC+ delays production hike:** In response to the lower oil prices, OPEC+ decided to postpone its planned increase in oil production by at least 2 months. Thus, we expect crude oil prices to reach USD75-80/bbl levels again. While upstream companies' net oil realization has fallen from ~USD75/bbl, we do not anticipate this to continue for long.
- Gas realization to increase:** Gas produced from new wells will see a 20% premium over the APM price, which is determined monthly at 10% of the imported Indian crude basket and capped at USD6.5/mmBtu. Consequently, incremental gas produced by ONGC and OINL will benefit from better realization. Additionally, the APM ceiling price is set to be revised to USD6.75/mmBtu from FY26. Thus, gas realization looks to be rising for upstream companies.
- Projected growth in volumes:** For ONGC, we build in 3.4% and 7.2% CAGR volume growth in oil and gas production over FY24-26E to 22.6mmt and 23.7bcm, respectively. Similarly, for OINL, we build in 8% and 16% CAGR volume growth in oil and gas production over FY24-26E to 3.9mmt and 4.3bcm.

September 11, 2024

Oil & Natural Gas Corporation (ONGC IN)

Rating: Acc | CMP: Rs296 | TP: Rs329

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		HOLD	
Target Price	329		322	
Sales (Rs. bn)	6,524	6,645	6,521	6,631
% Chng.	-	0.2		
EBITDA (Rs. bn)	1,016	1,077	1,014	1,065
% Chng.	0.2	1.2		
EPS (Rs.)	41.8	42.4	41.7	41.6
% Chng.	0.4	1.8		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. bn)	6,848	6,430	6,524	6,645
EBITDA (Rs. bn)	858	1,086	1,016	1,077
Margin (%)	12.5	16.9	15.6	16.2
PAT (Rs. bn)	260	560	537	544
EPS (Rs.)	20.2	43.6	41.8	42.4
Gr. (%)	(45.0)	115.7	(4.1)	1.3
DPS (Rs.)	11.2	12.2	16.5	17.9
Yield (%)	3.8	4.1	5.6	6.1
RoE (%)	9.6	18.1	15.2	14.1
RoCE (%)	15.7	18.5	14.5	14.6
EV/Sales (x)	0.7	0.7	0.7	0.6
EV/EBITDA (x)	5.6	4.3	4.5	4.0
PE (x)	14.6	6.8	7.1	7.0
P/BV (x)	1.3	1.1	1.0	0.9

Oil India (OINL IN)

Rating: BUY | CMP: Rs608 | TP: Rs786

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	786		766	
Sales (Rs. bn)	240	275	240	271
% Chng.	0.4	1.6		
EBITDA (Rs. bn)	98	134	97	130
% Chng.	0.9	3.2		
EPS (Rs.)	44.1	58.2	43.7	56.3
% Chng.	0.9	3.4		

Key Financials - Standalone

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. bn)	233	221	240	275
EBITDA (Rs. bn)	97	93	98	134
Margin (%)	41.6	41.8	40.9	48.7
PAT (Rs. bn)	68	79	72	95
EPS (Rs.)	41.9	48.7	44.1	58.2
Gr. (%)	75.2	16.2	(9.3)	31.9
DPS (Rs.)	13.3	10.5	15.4	20.4
Yield (%)	2.2	1.7	2.5	3.4
RoE (%)	21.2	20.2	15.4	18.1
RoCE (%)	18.6	14.8	13.6	17.3
EV/Sales (x)	4.7	4.8	4.5	3.8
EV/EBITDA (x)	11.2	11.6	10.9	7.7
PE (x)	14.5	12.5	13.8	10.4
P/BV (x)	2.9	2.2	2.0	1.8

Swarnendu Bhushan

swarnendubhushan@plindia.com | 91-22-66322260

Payal Shah

payalshah@plindia.com |

Exhibit 1: ONGC valuation table

Valuation Table	Remarks
Standalone adj EPS(INR)	28.9
PE (x)	9.0
Valuation of ONGC stand (INR/share)	260
Listed investments	69 Investment in IOCL,PLNG,GAIL,MRPL,HPCL at 25% holding discount
Total	329

Source: PL

Exhibit 2: Oil India Valuation Table

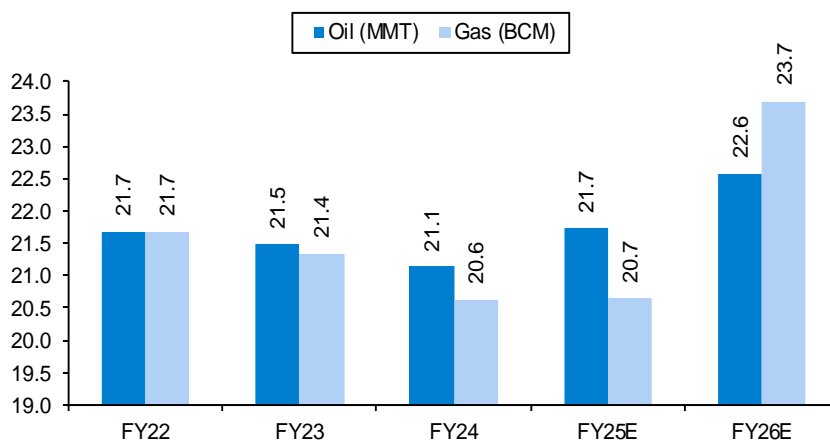
On P/E Basis	Remarks
Adj. EPS	51.4
Target P/E Multiple (x)	12.0
Fair Value	617.2
Investments	111.9 Investment in BCPL and IOCL(at 25% holding company discount)
Valuation of NRL	57.0 Explained in the table below
Total Valuation (Rs/share)	786

Source: PL

Exhibit 3: NRL Valuation

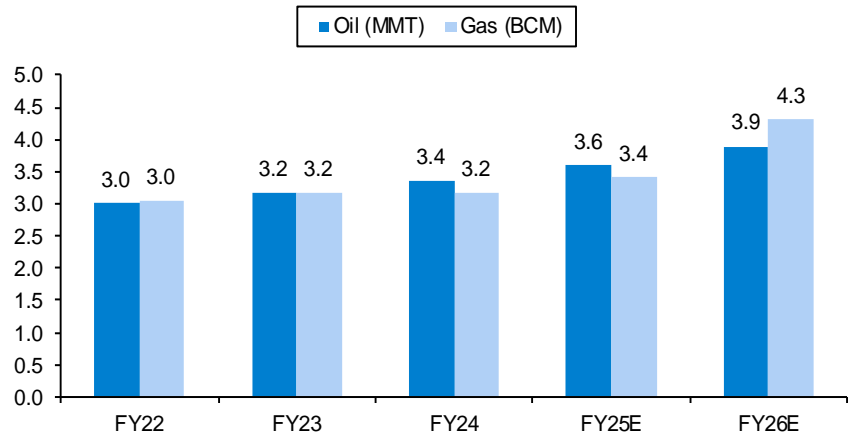
EBITDA (USD/bbl)	15.0	Includes excise duty benefit
Nameplate capacity	3.0	Stabilization to take time, hence valuing at current capacity, adding CWIP as mentioned below
Utilisation rate	100%	
Throughput (mmtpa)	3.0	
(EBITDA INR mn)	27,839	
EV at 6x (INR mn)	258,195	CWIP of INR170b, 0.7x PBV
Net Debt (INR mn)	80,140	FY24 end
Market cap (INR mn)	178,055	
OINL's stake (%)	70	
Value for OINL (INR/share)	76	
At 25% holding company discount	57	

Source: PL

Exhibit 4: Estimated increase in ONGC's production


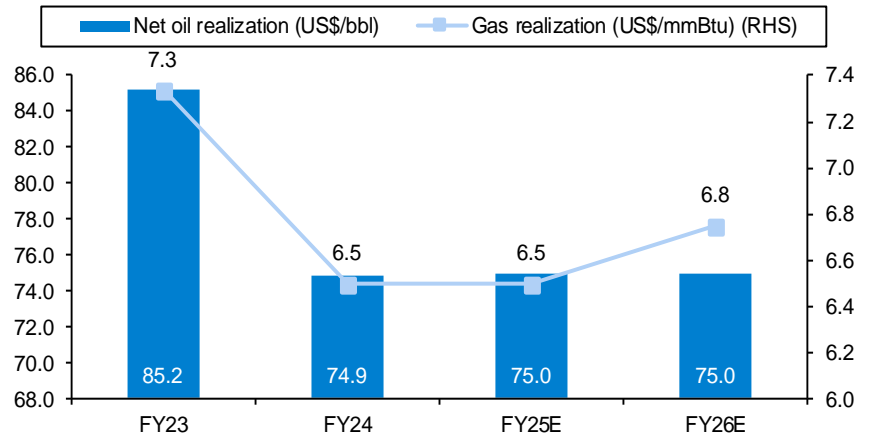
Source: Company, PL

Exhibit 5: Estimated increase in OINL's production



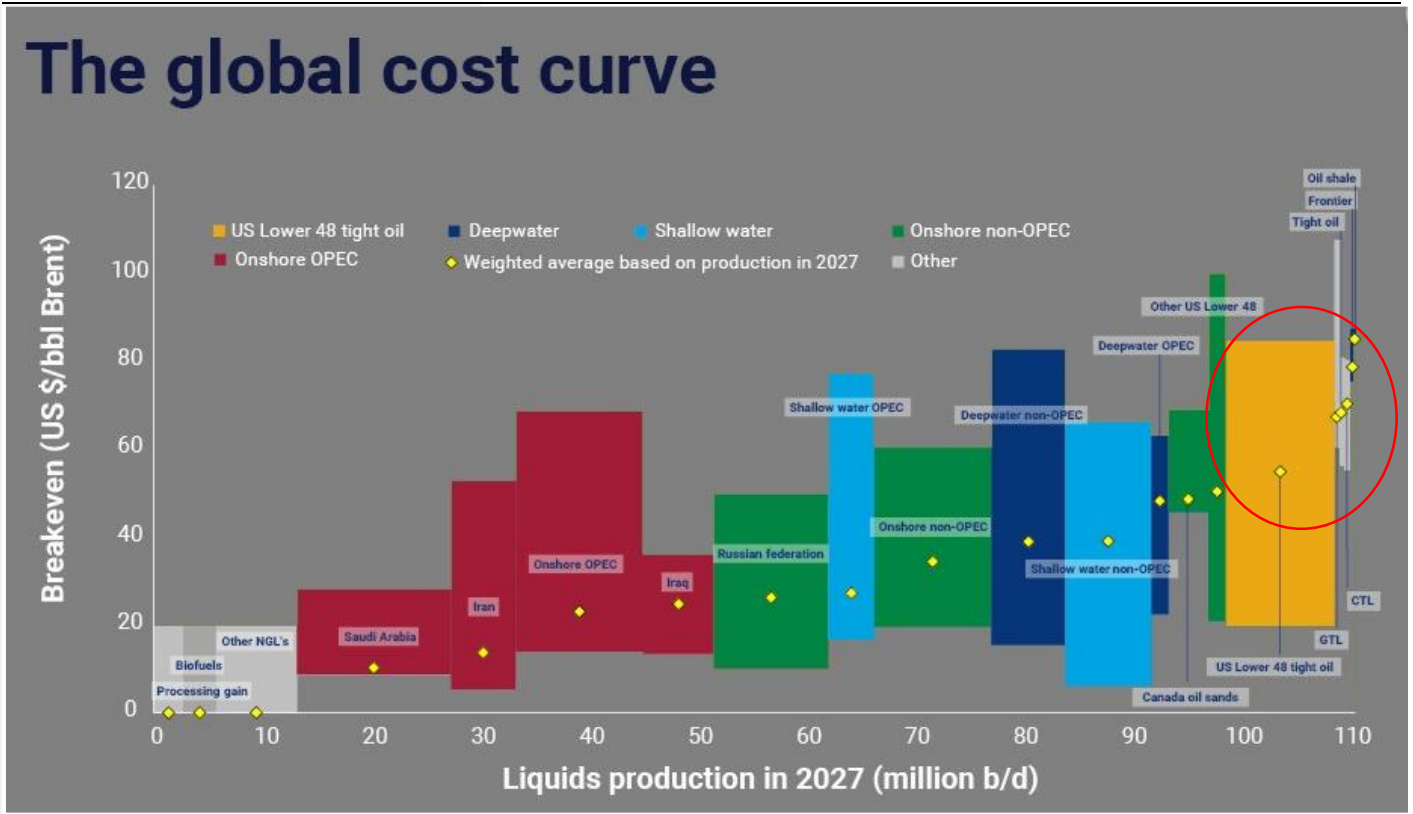
Source: Company, PL

Exhibit 6: APM gas price to rise by USD0.25/mmBtu in FY26E



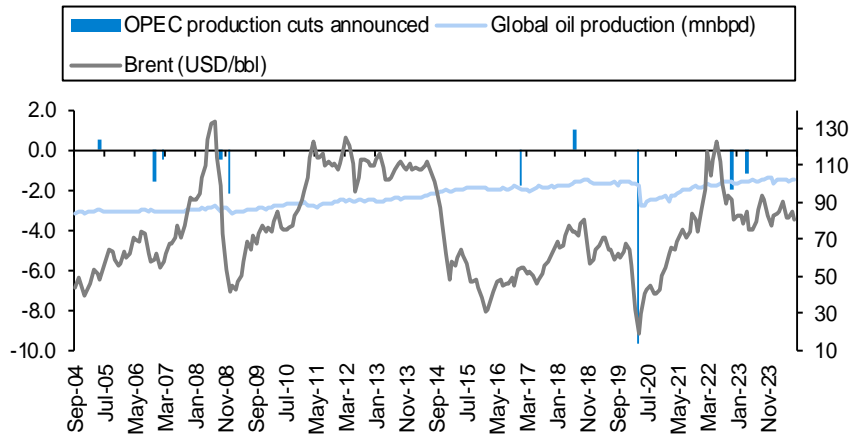
Source: Company, PL

Exhibit 7: Breakeven levels for oil production only higher at fog end of cost curve



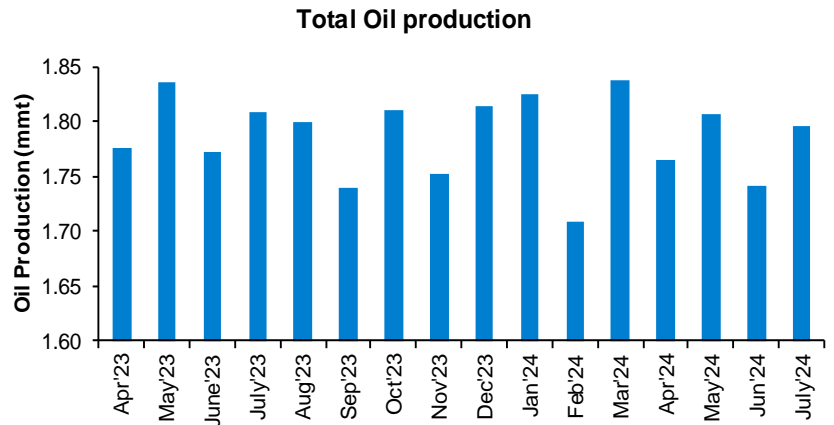
Source: PL, Industry

Exhibit 8: Global oil production currently at ~103mnbpd



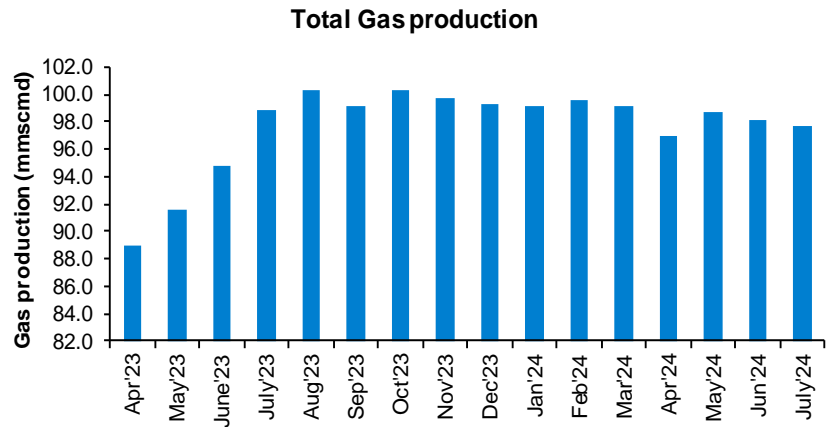
Source: PL, Industry

Exhibit 9: Total domestic oil production grew 3% MoM in July'24



Source: PL, Industry

Exhibit 10: Total domestic gas production fell marginally MoM



Source: PL, Industry

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	635	735
2	Ashok Leyland	Accumulate	261	246
3	Bajaj Auto	Accumulate	10,326	9,718
4	Bharat Forge	Accumulate	1,701	1,605
5	Bharat Petroleum Corporation	Reduce	269	302
6	Bharti Airtel	Accumulate	1,593	1,444
7	CEAT	Accumulate	2,992	2,667
8	Clean Science and Technology	Hold	1,516	1,562
9	Deepak Nitrite	Reduce	2,717	2,970
10	Divgi Torqtransfer Systems	Accumulate	734	665
11	Eicher Motors	BUY	5,335	4,577
12	Endurance Technologies	Accumulate	2,696	2,478
13	Exide Industries	Hold	559	532
14	Fine Organic Industries	Accumulate	6,172	5,535
15	GAIL (India)	Reduce	211	241
16	Gujarat Fluorochemicals	Reduce	2,907	3,330
17	Gujarat Gas	Accumulate	666	622
18	Gujarat State Petronet	BUY	417	336
19	Hero Motocorp	Accumulate	5,911	5,072
20	Hindustan Petroleum Corporation	Sell	340	396
21	Indian Oil Corporation	Sell	151	183
22	Indraprastha Gas	Sell	374	541
23	Jubilant Ingrevia	Hold	592	586
24	Laxmi Organic Industries	Sell	206	257
25	Mahanagar Gas	Sell	1,492	1,846
26	Mahindra & Mahindra	BUY	3,330	2,908
27	Mangalore Refinery & Petrochemicals	Sell	135	218
28	Maruti Suzuki	BUY	15,145	13,116
29	Navin Fluorine International	Accumulate	4,144	3,771

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I Mr. Swarnendu Bhushan- IIT, MBA Finance, Ms. Payal Shah- MMS-Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is a registered with SEBI under the SEBI (Research Analysts) Regulation, 2014 and having registration number INH000000271.

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Swarnendu Bhushan- IIT, MBA Finance, Ms. Payal Shah- MMS-Finance Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com