

Retail Equity Research

Oil & Natural Gas Corporation Ltd.

Oil, Gas & Consumable Fuels

BSE CODE: 500312

NSE CODE: ONGC

Bloomberg CODE: ONGC:IN

SENSEX: 76,607

BUY

12 Months Investment Period Rating as per Large Cap

CMP Rs. 275 TARGET Rs. 327 RETURN 19% ↑
(Closing: 12-06-24)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↓

Bullish Momentum; Strong Growth Prospects

Oil and Natural Gas Corporation Ltd. specialises in the exploration and production of crude oil and gas. The company has joint ventures in the oil fields in Vietnam, Norway, Egypt, Tunisia, Iran, and Australia.

- In Q4FY24, standalone revenue declined 4.6% YoY to Rs. 34,637cr due to reduction in gas prices.
- EBITDA surged 31.7% YoY to Rs. 19,571cr, with margin jumping to 56.5% on account of lower exploratory costs and other expenses. Reported PAT improved to Rs. 9,869cr from Rs. 528cr in Q4FY23, owing to absence of exceptional items which impacted Q4FY23 results.
- The company is expected to improve its earnings performance backed by increased production at KG 98/2 field, improved realisations, monetisation of discoveries, increased capital expenditure (capex) and potential adjustment of windfall tax. Hence, we upgrade our rating on the stock to BUY with a revised target price of Rs. 327 based on the sum-of-the-parts (SOTP) valuation.

Gas prices weigh on topline; margin soars

In Q4FY24, ONGC's standalone revenue dropped 4.6% YoY to Rs. 34,637cr, primarily due to a reduction in gas prices. Revenue from the offshore segment decreased 4.5% YoY to Rs. 23,891cr and onshore revenue, 4.7% YoY to Rs. 10,746cr. Though gross profit declined by 1.1% YoY to Rs. 34,590cr, gross profit margin improved by 351bps YoY to 99.9% owing to reduced input costs. However, EBITDA grew 31.7% YoY to Rs. 19,571cr, with margin improving 1,560bps YoY to 56.5%, driven by a fall in other expenses and exploratory costs. Consequently, the reported PAT jumped 1,769.7% YoY to Rs. 9,869cr, mainly driven by the absence of an exceptional item which affected last year's results.

Fluctuating trends in volume and prices

During Q4FY24, ONGC's net realisation for crude oil rose 4.8% YoY to \$80.8 per barrel. Conversely, gas prices dropped 24.2% YoY to \$6.5 per mmbtu, mainly owing to a reduction in statutory levies. Total crude production increased 2.4% YoY to 5.4 million metric tonne (mmt), driven by start of production at the KG 98/2 field. However, total gas production declined 3.0% YoY to 5.1 billion cubic metres (bcm) because of the maturing of the existing fields.

Positive production outlook

The company plans to increase production at its KG 98/2 field to 45,000 barrels by Q4FY25 from the current 12,000 barrels. It also expects to achieve a gas production rate of 10 million cubic meters per day by Q4FY25. Moreover, ONGC expects to raise its production from the current 39.45 mmtoe to ~47 mmtoe by FY27. It aims to take oil production to 22 mmt and gas production to about 25.5 bcm by FY27.

Key concall highlights

- ONGC's capex for FY24 was Rs. 37,000cr. For FY25, it expects it to be between Rs. 33,000cr and Rs. 35,000cr.
- The company made 11 field discoveries in FY24; reserve replacement was 1.15x.

Valuation

The ramp-up of the KG 98/2 is expected to boost the company's oil and gas production in the coming years. Additionally, higher prices for its produce will support its performance as the windfall tax does not apply to KG 98/2. Furthermore, monetising new discoveries, securing premium gas prices for production from nomination field, and potential improvement in net realisations for crude oil are expected to enhance earnings. Moreover, the company's long term strong production guidance further assures better performance in the future. Hence, we upgrade our rating to BUY with a revised target price of Rs. 327 based on the SOTP valuation.

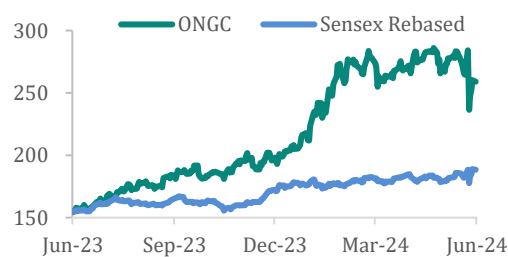
Company Data

Market Cap (cr)	Rs. 344,196
Enterprise Value (cr)	Rs. 350,289
Outstanding Shares (cr)	1,258.0
Free Float	31.0%
Dividend Yield	3.7%
52 week high	Rs. 293
52 week low	Rs. 155
6m average volume (lacs)	221.2
Beta	1.6
Face value	Rs. 5

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	58.9	58.9	58.9
FII's	8.4	9.2	8.9
MFs/Insti	19.6	18.7	18.9
Public	2.5	2.6	2.7
Others	10.6	10.6	10.6
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-6.8%	32.3%	68.0%
Absolute Sensex	3.2%	9.5%	22.1%
Relative Return*	-10.0%	22.7%	45.8%

*over or under performance to benchmark index



Standalone (cr)	FY24A	FY25E	FY26E
Sales	138,402	146,044	153,116
Growth (%)	(11.0)	5.5	4.8
EBITDA	77,593	80,227	84,518
EBITDA Margin (%)	56.1	54.9	55.2
Adj. PAT	40,526	43,109	45,473
Growth (%)	(17.8)	6.4	5.5
Adj. EPS	32.2	34.3	36.1
Growth (%)	(17.8)	6.4	5.5
P/E	8.3	8.0	7.6
P/B	1.1	1.0	0.9
EV/EBITDA	4.4	4.4	4.1
ROE (%)	13.2	12.9	12.5
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

Rs. cr	Q4FY24	Q4FY23	YoY Growth(%)	Q3FY24	QoQ Growth(%)	FY24	FY23	YoY Growth(%)
Revenue	34,637	36,293	(4.6)	34,788	(0.4)	138,402	155,517	(11.0)
EBITDA	19,571	14,860	31.7	18,735	4.5	77,593	80,843	(4.0)
EBITDA margins	56.5	40.9	1,560bps	53.9	260bps	56.1	52.0	410bps
Depreciation	5,675	4,860	16.8	5,102	11.2	20,496	16,820	21.9
EBIT	13,895	10,000	39.0	13,633	1.9	57,098	64,024	(10.8)
Interest	1,035	708	46.2	1,023	1.2	4,081	2,700	51.2
Other Income	-	-	n.m.	-	n.m.	-	-	n.m.
Exceptional Items	-	(9,235)	n.m.	-	-	-	(9,235)	n.m.
Share of profit from Associate	-	-	-	-	-	-	-	-
PBT	12,860	57	n.m.	12,610	2.0	53,016	52,089	1.8
Tax	2,991	(471)	n.m.	2,719	10.0	12,490	11,992	4.2
Reported PAT	9,869	528	1,769.7	9,892	(0.2)	40,526	40,097	1.1
Minority Interest	-	-	-	-	-	-	-	-
PAT att. to shareholders	9,869	528	1,769.7	9,892	(0.2)	40,526	40,097	1.1
Adjustments	-	9,235	n.m.	-	-	-	9,235	n.m.
Adj. PAT	9,869	9,763	1.1	9,892	(0.2)	40,526	49,332	(17.8)
No. of shares	1,258.0	1,258.0	-	1,258.0	-	1,258.0	1,258.0	-
Adj. EPS (Rs.)	7.8	7.8	1.1	7.9	(0.2)	32.2	39.2	(17.8)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	160,250	-	146,044	153,116	(8.9)	-
EBITDA	87,602	-	80,227	84,518	(8.4)	-
Margins (%)	54.7	-	54.9	55.2	20bps	-
Adj. PAT	45,751	-	43,109	45,473	(5.8)	-
Adj. EPS	36.4	-	34.3	36.1	(5.8)	-

Sum-Of-The-Parts (SOTP) Valuation

Particulars	Methodology	Multiple	% Holding	Value (Rs. cr.)	Value Per Share (Rs.)
ONGC	FY26E P/E	7.6	100.0%	344,196	274
Investments		-			106
- HPCL	Geojit TP	-	54.9%	42,301	34
- ONGC Videsh	P/BV	1.0	100.0%	15,000	12
- IOCL	Geojit TP	-	14.2%	35,999	29
- GAIL	Geojit TP	-	5.0%	7,180	6
- MRPL	Market Price	-	71.6%	26,759	21
- Petronet LNG	Geojit TP	-	12.5%	5,925	5
				50% holding discount to investments	(53)
				Target price	327



PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	110,345	155,517	138,402	146,044	153,116
% change	61.9	40.9	(11.0)	5.5	4.8
EBITDA	60,946	80,843	77,593	80,227	84,518
% change	81.5	32.6	(4.0)	3.4	5.3
Depreciation	17,546	16,820	20,496	19,476	20,657
EBIT	43,400	64,024	57,098	60,751	63,862
Interest	2,360	2,700	4,081	4,582	4,612
Other Income	(0)	(9,235)	0	-	0
PBT	41,040	52,089	53,016	56,169	59,250
% change	150.2	26.9	1.8	5.9	5.5
Tax	734	11,992	12,490	13,061	13,777
Tax Rate (%)	1.8	23.0	23.6	23.3	23.3
Reported PAT	40,306	40,097	40,526	43,109	45,473
PAT att. to common shareholders	40,306	40,097	40,526	43,109	45,473
Adj*	-	9,235	-	-	-
Adj PAT	40,306	49,332	40,526	43,109	45,473
% change	308.3	22.4	(17.8)	6.4	5.5
No. of shares (cr)	1258.0	1258.0	1258.0	1258.0	1258.0
Adj EPS (Rs.)	32.0	39.2	32.2	34.3	36.1
% change	308.3	22.4	(17.8)	6.4	5.5
DPS (Rs.)	10.5	11.3	12.3	13.0	13.7

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	57,811	56,876	60,981	62,531	66,073
Non-cash adj.	(8,819)	19,947	4,029	(6,076)	(7,293)
Changes in W.C	309	4,016	325	(1,054)	(1,533)
C.F. Operation	49,301	80,838	65,336	55,401	57,247
Capital exp.	(27,393)	(38,523)	(37,667)	(34,759)	(35,278)
Change in inv.	(123)	(21,400)	(10,329)	198	-
Other invest.CF	4,014	2,558	5,303	8,641	8,754
C.F - Investment	(23,502)	(57,365)	(42,694)	(25,920)	(26,524)
Issue of equity	-	-	-	-	-
Issue/repay debt	(8,695)	629	(1,148)	40	40
Dividends paid	(11,449)	(17,609)	(12,895)	(15,573)	(16,427)
Other finance.CF	(5,725)	(6,465)	(8,642)	(13,926)	(14,304)
C.F - Finance	(25,869)	(23,445)	(22,685)	(29,459)	(30,691)
Chg. in cash	(70)	27	(43)	22	32
Closing cash	50	77	35	57	89

BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	50	77	35	57	89
Accounts Receivable	11,788	10,250	11,410	12,136	12,830
Inventories	7,861	8,321	10,712	11,391	12,387
Other Cur. Assets	16,226	34,431	43,586	47,172	50,591
Investments	85,173	84,986	105,371	105,371	105,371
Gross Fixed Assets	244,678	283,201	320,868	355,627	390,904
Net Fixed Assets	136,753	141,728	178,877	190,698	201,586
CWIP	25,966	29,734	30,219	31,730	33,317
Intangible Assets	13,399	16,203	20,029	22,031	24,235
Def. Tax (Net)	-	-	-	-	-
Other Assets	40,046	44,149	45,784	46,682	47,457
Total Assets	337,264	369,878	446,021	467,270	487,863
Current Liabilities	36,601	37,881	39,448	41,255	41,468
Provisions	30,186	37,474	48,170	49,134	49,871
Debt Funds	6,397	7,219	6,109	6,149	6,189
Other Liabilities	26,932	27,332	46,317	37,220	27,778
Equity Capital	6,290	6,290	6,290	6,290	6,290
Reserves & Surplus	230,858	253,682	299,686	327,222	356,267
Shareholder's Fund	237,148	259,972	305,977	333,512	362,557
Minority Interest	-	-	-	-	-
Total Liabilities	337,264	369,878	446,021	467,270	487,863
BVPS (Rs.)	189	207	243	265	288

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	55.2	52.0	56.1	54.9	55.2
EBIT margin (%)	39.3	41.2	41.3	41.6	41.7
Net profit mgn.(%)	36.5	25.8	29.3	29.5	29.7
ROE (%)	17.0	15.4	13.2	12.9	12.5
ROCE (%)	17.8	24.0	18.3	17.9	17.3
W.C & Liquidity					
Receivables (days)	39.0	24.1	30.1	30.3	30.6
Inventory (days)	26.0	19.5	28.2	28.5	29.5
Payables (days)	20.4	14.7	16.8	16.8	16.4
Current ratio (x)	1.0	1.3	1.6	1.6	1.7
Quick ratio (x)	0.3	0.3	0.3	0.3	0.3
Turnover & Leverage					
Gross asset T.O (x)	0.5	0.6	0.5	0.4	0.4
Total asset T.O (x)	0.3	0.4	0.3	0.3	0.3
Int. coverage ratio (x)	18.4	23.7	14.0	13.3	13.8
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	1.9	1.3	2.5	2.4	2.3
EV/EBITDA (x)	3.5	2.4	4.4	4.4	4.1
P/E (x)	5.1	3.9	8.3	8.0	7.6
P/BV (x)	0.9	0.7	1.1	1.0	0.9

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
24-Nov-20	BUY	86
29-Jun-21	BUY	145
16-Nov-21	BUY	187
29-Jun-22	BUY	189
22-Aug-22	HOLD	146
16-Jun-23	BUY	177
20-Nov-23	HOLD	198
13-Jun-24	BUY	327

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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