

Oil & Gas

Upstream on a roll but valuations still undemanding, BUY

Sector Report

SECTOR UPDATE

December 24, 2023

NIFTY 50: 21,349

We observe Indian PSU upstream companies, viz ONGC and Oil India (OIL), despite their strong stock run-up have inexpensive valuations at 5-6x FY25E consolidated EPS each, thereby being the cheapest among the heavy-industry PSU pack (average of >10x P/E). On the dividend yield front, ONGC and OIL are well placed at 5-6% as compared with their PSU peers averaging at ~4%. We believe positive momentum in the upstream sector would be led by a shift towards companies with undemanding valuation, while we find fundamental support led by steady earnings and cash flows on the back of regulatory consistency, stable commodity prices, and margins and triggers in the core production outlook (OIL is already showing growth, while KG 98/2 is expected to commission any time soon for ONGC). We largely retain our earnings estimates but raise our SOTP-based Sep-24E TP for ONGC/OIL by 7%/20% to Rs250/445, assigning an implied FY25E consolidated earnings multiple of 6.5x/7.0x vs. ~6x each earlier. Value of investments is also up for ONGC and OIL as downstream entities record strong earnings and stock run-up. We retain our BUY rating on ONGC and OIL.

ONGC – KG-DWN-98/2's first oil expected soon

Management has guided on the first oil from KG-98/2 by the end of this month, with an initial output of ~10kbpd, which will ramp up to 45kbpd peak in FY25. The gas platform is expected to be ready by Apr-24 and gas production ramp-up will start from May-Jun 2024. We estimate ONGC to report consolidated EPS of Rs38-40/share annually during FY24-26E on account of windfall-adjusted steady oil realizations and oil-linked APM gas pricing could assure USD6.5/MMBtu realization going ahead; while capex outlook remains range-bound at Rs300-350bn p.a. ONGC is recording double-digit FCF yield in the standalone business, while better performance of investments such as HPCL, IOCL, MRPL, and GAIL is also adding up to valuations.

OIL – Steady production growth persists; NRL expansion on schedule

OIL has reported a 6% production CAGR over FY21-23, while management continues to guide for a 4-5% production CAGR over the next 2-3 years besides the overall plan to achieve 4mmtpa oil/5bcm gas. We believe OIL's gas outlook would be supported by better connectivity through IGGL's NE-gas grid as well as NRL expansion. NRL's expansion to 9mmtpa capacity remains on track with Rs130bn spent till Sep-23 end, out of the total Rs280bn expansion capex, and the balance is projected to be incurred by CY25. We foresee OIL's consolidated EPS at Rs63-64/share annually during FY25-26E, while NRL's expansion would add to OIL's earnings from FY27E. The value of IOCL investment is also up, adding to its TP.

Sabri Hazarika

sabri.hazarika@emkayglobal.com
+91 22 6612 1282

Harsh Maru

harsh.maru@emkayglobal.com
+91 22 6612 1336

Arya Patel

arya.patel@emkayglobal.com
+91 22 6612 1285

Rating, Target Price and Valuation

	Rating	CMP (Rs)	TP (Rs)	Upside (%)	EV/EBITDA (x)		P/B (x)	
					FY24E	FY25E	FY24E	FY25E
ONGC (Standalone)	BUY	204	250	23	3.6	3.3	0.9	0.9
Oil India (Consolidated)	BUY	373	445	19	5.1	5.1	0.9	0.8

Source: Company, Emkay Research

Exhibit 1: PSU valuation comparison

Consol	MCAP Rs bn	EV/EBITDA (x)				P/E (x)				Dividend Yield 1yr fwd (%)	RoE (%)			
		FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E		FY22	FY23	FY24E	FY25E
ONGC	2,566	4.3	4.1	3.8	3.9	4.5	5.3	5.4	5.2	5.3	18.9	18.0	16.1	14.7
OIL	405	3.4	4.4	5.2	5.0	4.6	5.0	6.4	5.7	4.6	20.7	24.9	17.6	16.5
IOCL	1,747	4.9	11.8	4.8	5.8	4.4	25.1	4.9	6.8	6.9	20.5	5.2	21.4	13.7
BPCL	969	6.9	12.7	3.8	5.9	6.5	28.5	4.5	8.6	5.8	22.2	3.3	35.0	16.1
HPCL	524	7.9	NM	5.0	6.7	5.2	NM	4.1	5.9	3.8	18.4	-23.2	38.4	21.0
GAIL	996	5.0	12.3	9.7	8.6	5.6	13.1	11.2	9.7	3.3	20.9	10.3	13.6	14.1
NTPC	2,936	8.6	11.0	9.9	9.1	7.8	16.7	15.0	13.4	1.9	12.8	12.5	12.9	13.2
Power Grid	2,155	7.8	8.6	8.2	7.8	9.0	14.7	14.1	13.5	5.2	23.0	18.2	18.2	18.0
SJVN	353	8.6	25.5	19.1	13.0	10.9	32.0	24.8	20.3	2.0	7.6	NM	10.7	12.6
NHPC	650	10.5	16.2	14.7	11.1	7.9	17.9	15.9	14.0	2.9	10.2	10.4	11.0	11.5
SAIL	466	2.7	8.6	6.9	6.3	3.3	22.0	12.1	12.2	2.2	24.6	4.1	5.3	6.8
Coal India	2,239	3.3	4.9	5.4	5.4	6.5	7.7	8.6	8.9	6.5	43.6	58.4	40.3	33.9
NMDC	572	3.3	7.5	6.3	5.9	5.1	11.7	10.0	9.3	1.9	39.4	20.1	23.1	22.2
NALCO	211	4.1	9.0	7.8	5.8	7.6	14.7	12.6	9.7	4.0	25.4	11.1	10.2	14.5
Average		5.8	10.5	7.9	7.2	6.4	16.5	10.7	10.2	4.0	22.0	13.3	19.5	16.3

Source: Bloomberg, Company, Emkay Research – Note: Estimates in Exhibit 1 are consol consensus, including for ONGC & OIL

ONGC Financials and Valuation

Exhibit 2: ONGC Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	11,03,454	15,55,173	14,32,139	13,63,050	13,57,049
EBITDA	5,44,300	7,14,987	6,36,333	6,34,314	6,28,054
Adj. PAT	3,06,979	4,46,036	3,57,327	3,59,557	3,58,426
Adj. EPS (Rs)	24.4	35.5	28.4	28.6	28.5
EBITDA margin (%)	49.3	46.0	44.4	46.5	46.3
EBITDA growth (%)	106.0	31.4	(11.0)	(0.3)	(1.0)
Adj. EPS growth (%)	258.4	(3.7)	(8.0)	0.6	(0.3)
RoE (%)	18.3	19.4	13.3	12.4	11.5
RoIC (%)	34.5	41.9	32.2	30.5	28.8
P/E (x)	8.4	5.8	7.2	7.1	7.2
EV/EBITDA (x)	5.0	3.5	3.6	3.3	3.0
P/B (x)	1.1	1.0	0.9	0.9	0.8
FCFF yield (%)	8.0	16.9	13.5	14.6	14.8

Source: Company, Emkay Research

Exhibit 3: P/E-based valuation – Sep-24E

Rs/share	FY21	FY22	FY23	FY24E	FY25E	FY26E
Consolidated EPS	13.1	38.3	33.1	39.8	38.7	39.0
Target PE Multiple (x)						6.4
TP Sep-24						250

Source: Company, Emkay Research

Exhibit 4: SOTP-based valuation – Sep-24E

Components (Rs mn)	Basis	Sep'24 Eq. Val	Value/share (Rs)	Comments
ONGC Standalone (ex 98/2)	DCF	28,38,254	226	WACC/TG at 11.0%/-1.0%
KG-DWN-98/2	NPV/DCF	1,91,344	15	30% Disc to NPV, 11% Disc Rate
OVL (ex. Mozambique Upside)	DCF	(2,78,393)	(22)	WACC/TG at 8.3%/-5.0%
Mozambique Upside	DCF	-	-	
OpaL Value	EV/EBITDA	(2,19,197)	(17)	6.0x Sep-25 EV/EBITDA
Core Business Valuation		25,32,008	201	
Value of Investments	TP/CMP/BV	6,15,818	49	At 30% Holdco Discount
Target Price-Fair Value		31,47,826	250	

Source: Company, Emkay Research

Oil India Financials and Valuation**Exhibit 5: Oil India Financial Snapshot (Consolidated)**

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	3,00,112	4,10,389	2,91,804	3,22,859	3,34,772
EBITDA	1,05,004	1,52,681	1,10,602	1,16,575	1,15,753
Adj. PAT	56,216	87,286	66,414	69,517	69,178
Adj. EPS (Rs)	51.8	80.5	61.2	64.1	63.8
EBITDA margin (%)	35.0	37.2	37.9	36.1	34.6
EBITDA growth (%)	84.6	45.4	(27.6)	5.4	(0.7)
Adj. EPS growth (%)	42.3	55.3	(23.9)	4.7	(0.5)
RoE (%)	20.7	25.3	17.9	14.6	13.4
RoIC (%)	41.2	59.5	42.6	38.0	34.5
P/E (x)	7.2	4.6	6.1	5.8	5.9
EV/EBITDA (x)	5.3	3.6	5.1	5.1	5.1
P/B (x)	1.3	1.1	0.9	0.8	0.8
FCFF yield (%)	6.0	5.2	(10.2)	(3.9)	5.5

Source: Company, Emkay Research

Exhibit 6: P/E-based valuation – Sep-24E

Rs/share	FY21	FY22	FY23	FY24E	FY25E	FY26E
Consolidated EPS	36.4	51.8	80.5	61.2	64.1	63.8
Target PE Multiple (x)						7.0
TP Sep-24						445

Source: Company, Emkay Research

Exhibit 7: SOTP-based valuation – Sep-24E

Components (Rs mn)	Basis	Sep'24 Eq. Val	Value/share (Rs)	Comments
Oil India Standalone	DCF	2,69,233	248	WACC/TG at 10.5%/0%
NRL (69.6% Stake)	DDM	1,22,201	113	WACC/TG at 10%/0%
Mozambique Upside	DCF	-	-	
Core Business Valuation		3,91,434	361	
Value of Investments	TP/BV	91,576	84	At 30% Holdco Discount
Target Price-Fair Value		4,83,010	445	

Source: Company, Emkay Research

Oil India : Consolidated Financials and Valuations

Profit and Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	3,00,112	4,10,389	2,91,804	3,22,859	3,34,772
Revenue growth (%)	33.5	36.7	(28.9)	10.6	3.7
EBITDA	1,05,004	1,52,681	1,10,602	1,16,575	1,15,753
EBITDA growth (%)	84.6	45.4	(27.6)	5.4	(0.7)
Depreciation & Amortization	18,245	19,469	22,921	25,681	26,980
EBIT	86,759	1,33,211	87,681	90,894	88,774
EBIT growth (%)	125.7	53.5	(34.2)	3.7	(2.3)
Other operating income	11,426	7,194	15,407	17,865	17,731
Other income	11,426	7,194	15,407	17,865	17,731
Financial expense	9,401	9,009	8,391	8,054	6,553
PBT	88,784	1,31,396	94,697	1,00,706	99,952
Extraordinary items	0	0	(8,521)	0	0
Taxes	22,710	32,895	15,342	25,378	25,188
Minority interest	10,976	11,258	4,934	6,352	6,154
Income from JV/Associates	1,119	43	515	541	568
Reported PAT	56,216	87,286	66,414	69,517	69,178
PAT growth (%)	42.3	55.3	(23.9)	4.7	(0.5)
Adjusted PAT	56,216	87,286	66,414	69,517	69,178
Diluted EPS (Rs)	51.8	80.5	61.2	64.1	63.8
Diluted EPS growth (%)	42.3	55.3	(23.9)	4.7	(0.5)
DPS (Rs)	14.2	20.0	12.6	22.6	22.6
Dividend payout (%)	27.5	24.8	20.5	35.2	35.5
EBITDA margin (%)	35.0	37.2	37.9	36.1	34.6
EBIT margin (%)	28.9	32.5	30.0	28.2	26.5
Effective tax rate (%)	25.6	25.0	16.2	25.2	25.2
NOPLAT (pre-IndAS)	64,567	99,862	73,475	67,989	66,403
Shares outstanding (mn)	1,084.4	1,084.4	1,084.4	1,084.4	1,084.4

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	88,784	1,31,396	94,697	1,00,706	99,952
Others (non-cash items)	27,475	37,185	15,390	15,329	15,234
Taxes paid	(10,362)	(33,422)	(15,342)	(25,378)	(25,188)
Change in NWC	(13,920)	(21,097)	4,202	(18,746)	23,035
Operating cash flow	93,096	1,14,104	75,319	71,910	1,13,033
Capital expenditure	(59,680)	(85,246)	(1,32,771)	(95,140)	(80,281)
Acquisition of business	0	0	0	0	0
Interest & dividend income	7,687	5,059	15,407	17,865	17,731
Investing cash flow	(41,931)	(91,314)	(71,040)	(81,672)	(78,991)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(34,990)	7,095	13,283	48,400	(10,000)
Payment of lease liabilities	(935)	(935)	(935)	(935)	(935)
Interest paid	(7,061)	(8,266)	(8,391)	(8,054)	(6,553)
Dividend paid (incl tax)	(13,809)	(24,940)	(13,626)	(24,495)	(24,535)
Others	4,331	22,412	2,142	(572)	5,927
Financing cash flow	(51,528)	(3,700)	(6,593)	15,279	(35,161)
Net chg in Cash	(364)	19,090	(2,314)	5,518	(1,119)
OCF	93,096	1,14,104	75,319	71,910	1,13,033
Adj. OCF (w/o NWC chg.)	79,176	93,007	79,521	53,164	1,36,068
FCFF	33,416	28,859	(57,452)	(23,230)	32,752
FCFE	31,701	24,909	(50,436)	(13,418)	43,931
OCF/EBITDA (%)	88.7	74.7	68.1	61.7	97.6
FCFE/PAT (%)	56.4	28.5	(75.9)	(19.3)	63.5
FCFF/NOPLAT (%)	51.8	28.9	(78.2)	(34.2)	49.3

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	10,844	10,844	10,844	10,844	10,844
Reserves & Surplus	2,94,775	3,73,971	4,42,212	4,85,575	5,23,199
Net worth	3,05,619	3,84,815	4,53,056	4,96,419	5,34,043
Minority interests	26,143	33,711	38,645	44,997	51,151
Deferred tax liability (net)	31,449	33,178	31,856	33,063	34,149
Total debt	1,67,205	1,88,318	2,01,600	2,50,000	2,40,000
Total liabilities & equity	5,30,417	6,40,021	7,25,157	8,24,479	8,59,342
Net tangible fixed assets	1,52,017	1,64,699	1,64,342	1,76,972	1,98,656
Net intangible assets	2,093	2,093	2,093	2,093	2,093
Net ROU assets	3,681	3,681	3,681	3,681	3,681
Capital WIP	69,258	1,30,040	2,16,551	2,73,381	3,04,997
Goodwill	0	0	0	0	0
Investments [JV/Associates]	2,81,966	2,92,934	2,95,862	3,02,025	3,08,328
Cash & equivalents	19,368	41,430	43,322	60,481	49,973
Current assets (ex-cash)	79,799	1,03,953	91,431	1,34,617	98,562
Current Liab. & Prov.	77,766	98,809	92,125	1,28,770	1,06,948
NWC (ex-cash)	2,033	5,144	(694)	5,847	(8,386)
Total assets	5,30,417	6,40,021	7,25,157	8,24,479	8,59,342
Net debt	1,47,837	1,46,887	1,58,278	1,89,519	1,90,027
Capital employed	5,30,417	6,40,021	7,25,157	8,24,479	8,59,342
Invested capital	1,59,824	1,75,617	1,69,423	1,88,593	1,96,044
BVPS (Rs)	281.8	354.9	417.8	457.8	492.5
Net Debt/Equity (x)	0.5	0.4	0.3	0.4	0.4
Net Debt/EBITDA (x)	1.4	1.0	1.4	1.6	1.6
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
RoCE (%)	19.5	24.0	15.1	14.0	12.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	7.2	4.6	6.1	5.8	5.9
P/CE(x)	5.4	3.8	4.1	4.3	4.2
P/B (x)	1.3	1.1	0.9	0.8	0.8
EV/Sales (x)	1.9	1.4	1.9	1.8	1.8
EV/EBITDA (x)	5.3	3.6	5.1	5.1	5.1
EV/EBIT(x)	6.4	4.1	6.4	6.5	6.7
EV/IC (x)	3.5	3.1	3.3	3.2	3.0
FCFF yield (%)	6.0	5.2	(10.2)	(3.9)	5.5
FCFE yield (%)	7.8	6.2	(12.5)	(3.3)	10.9
Dividend yield (%)	3.8	5.4	3.4	6.1	6.1
DuPont-RoE split					
Net profit margin (%)	18.7	21.3	25.7	21.5	20.7
Total asset turnover (x)	0.6	0.7	0.4	0.4	0.4
Assets/Equity (x)	1.9	1.7	1.6	1.6	1.6
RoE (%)	20.7	25.3	17.9	14.6	13.4
DuPont-RoIC					
NOPLAT margin (%)	21.5	24.3	25.2	21.1	19.8
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	41.2	59.5	42.6	38.0	34.5
Operating metrics					
Core NWC days	37.2	40.8	40.3	53.4	38.5
Total NWC days	37.2	40.8	40.3	53.4	38.5
Fixed asset turnover	1.1	1.4	0.9	0.9	0.8
Opex-to-revenue (%)	65.0	62.8	62.1	63.9	65.4

Source: Company, Emkay Research

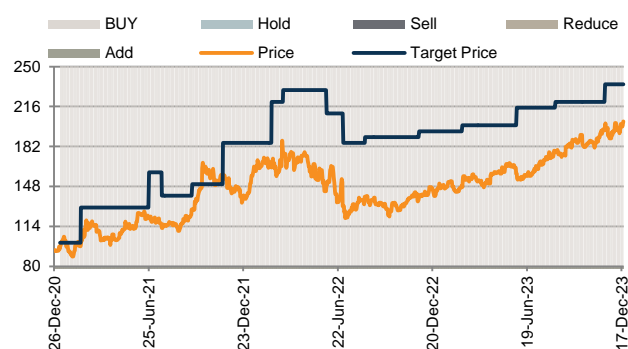
ONGC

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	195	235	Buy	Sabri Hazarika
15-Nov-23	200	235	Buy	Sabri Hazarika
12-Aug-23	177	220	Buy	Sabri Hazarika
30-May-23	159	215	Buy	Sabri Hazarika
15-Feb-23	148	200	Buy	Sabri Hazarika
06-Dec-22	142	195	Buy	Sabri Hazarika
01-Dec-22	140	195	Buy	Sabri Hazarika
24-Nov-22	139	195	Buy	Sabri Hazarika
02-Oct-22	127	190	Buy	Sabri Hazarika
07-Sep-22	133	190	Buy	Sabri Hazarika
13-Aug-22	139	190	Buy	Sabri Hazarika
15-Jul-22	127	185	Buy	Sabri Hazarika
02-Jul-22	131	185	Buy	Sabri Hazarika
28-Jun-22	149	210	Buy	Sabri Hazarika
31-May-22	151	210	Buy	Sabri Hazarika
22-May-22	162	230	Buy	Sabri Hazarika
01-Apr-22	168	230	Buy	Sabri Hazarika
09-Mar-22	175	230	Buy	Sabri Hazarika
15-Feb-22	164	220	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

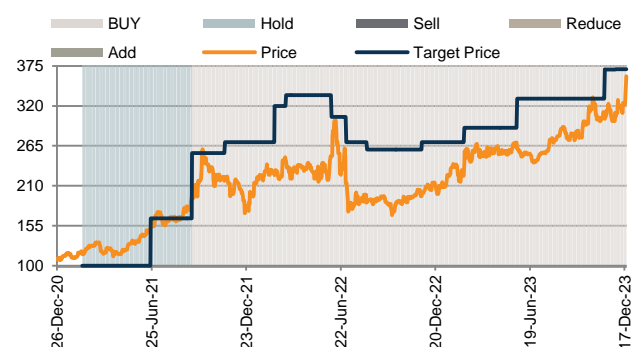
OIL INDIA

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	305	370	Buy	Sabri Hazarika
09-Nov-23	302	370	Buy	Sabri Hazarika
09-Aug-23	277	330	Buy	Sabri Hazarika
05-Jun-23	254	330	Buy	Sabri Hazarika
25-May-23	261	330	Buy	Sabri Hazarika
13-Feb-23	241	290	Buy	Sabri Hazarika
06-Dec-22	211	270	Buy	Sabri Hazarika
01-Dec-22	207	270	Buy	Sabri Hazarika
24-Nov-22	197	270	Buy	Sabri Hazarika
02-Oct-22	174	260	Buy	Sabri Hazarika
07-Sep-22	196	260	Buy	Sabri Hazarika
11-Aug-22	188	260	Buy	Sabri Hazarika
15-Jul-22	182	270	Buy	Sabri Hazarika
02-Jul-22	214	270	Buy	Sabri Hazarika
28-Jun-22	250	305	Buy	Sabri Hazarika
04-Jun-22	251	305	Buy	Sabri Hazarika
22-May-22	239	335	Buy	Sabri Hazarika
01-Apr-22	239	335	Buy	Sabri Hazarika
09-Mar-22	243	335	Buy	Sabri Hazarika
15-Feb-22	225	320	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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