

Oil & Natural Gas Corpn Ltd

Industry	Oil & Gas
Bloomberg	ONGC IN
BSE CODE	500312

Higher realization drove the growth, expect normalization ahead

3QFY19 Result update

- ❑ ONGC has reported robust performance by posting revenue growth of 20% YoY to Rs. 27694 Cr while PAT has grown by 65% YoY to Rs. 8263 Cr. This robust growth is led by the higher crude oil and gas realizations.
- ❑ EBITDA margin of the company has improved by 270bps YoY to 50.2% in the last quarter on account of higher realizations and lower other expenses.
- ❑ Crude oil sales volume (incl. JV) has declined by 9% on YoY basis to 5.4 MMT due to lower production and lower off-take by OMC's where as the crude oil realization has increased by 26% YoY to 4786 Rs/bbl in Q3 FY19.
- ❑ Natural gas volume (incl. JV) has increased by 6% on YoY basis to 5.32 BCM where as the realization in gas has improved by 16% on YoY basis in Q3 FY19.
- ❑ Revenue from LPG has increased by 15% YoY to Rs.1308 Cr mainly on account of higher realization.
- ❑ Company has reported higher other income of Rs.2225 Cr on account of higher dividend received in the last quarter.
- ❑ Company has declared interim dividend of Rs.5.25/share.

View and valuation:


ONGC has reported robust performance in the last quarter led by higher realizations in crude as well as natural gas. But the crude oil prices has come down and is fluctuating between 51-55 USD/bbl which is likely to normalize its top-line and Pat growth in upcoming quarters. Company is expected to maintain its margin levels in upcoming quarters on the back of lower operating expenses. On the volume front, company is ramping up production at S1 and Vashishta gas fields which is likely to improve its volume in upcoming fiscal. Expected incremental production from these fields is 2-2.25 MMSCMD. We expect revenue and PAT to grow at CAGR of 14% and 15% respectively over FY18-20e. Considering above arguments, we are optimistic on this stock in the long run. At current stock is trading at 6x adjusted standalone FY20e EPS.

We recommend BUY rating in the stock while maintaining our previous target price of Rs. 181 on SOTP basis.

Key Risks to our rating and target

- ❑ Subsidy sharing with OMC's
- ❑ Geo political risk to its subsidiaries
- ❑ Sharp decline in crude oil price

RATING	BUY
CMP	132
Price Target	181
Potential Upside	37%

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L	194/127
Mkt Capital (Rs Cr)	169527
Free float (%)	32%
Avg. Vol 1M (,000)	7,341
No. of Shares (Cr)	1283
Promoters Pledged %	0%

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KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	77742	77908	85004	109730	109739
EBITDA	32240	31079	36988	54706	51889
EBIT	21140	18889	22517	40021	35139
PAT	16140	17900	19945	29650	25773
EPS (Rs)	13	14	16	23	20
EPS growth (%)	-9%	11%	11%	49%	-13%
ROE (%)	10%	10%	10%	14%	11%
ROCE (%)	10%	10%	10%	14%	11%
BV	129	145	151	165	176
P/B (X)	1.1	1.3	1.1	0.8	0.8
P/E (x)	11.3	13.3	10.7	5.7	6.6

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3Q FY 19
PAT above expectation
Strong performance

<i>Financials</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY17</i>	<i>FY18</i>	<i>YoY %</i>
<i>Net Sales</i>	22996	23970	27213	27989	27694	20.4%	-1.1%	77908	85004	9.1%
<i>Other Income</i>	1127	3734	650	2394	2225	97.5%	-7.1%	7548	7884	4%
<i>COGS</i>	7246	9205	8223	8370	9252	27.7%	10.5%	27446	28276	3.0%
<i>Gross Margin</i>	68%	62%	70%	70%	67%	-1.9%	-3.5%	65%	67%	2.0%
<i>Employee Cost</i>	639	748	636	610	678	6.0%	11.1%	2399	2503	4.4%
<i>Other Expenses</i>	4191	5671	4761	4538	3868	-7.7%	-14.8%	16985	17237	1%
<i>EBITDA</i>	10919	8346	13593	14471	13896	27.3%	-4.0%	31079	36988	19.0%
<i>EBITDA%</i>	47%	35%	50%	52%	50%	2.7%	-1.5%	40%	44%	3.6%
<i>Depreciation</i>	4256	3245	3887	3531	3477	-18.3%	-1.5%	12190	14470	18.7%
<i>EBIT</i>	6663	5101	9705	10940	10419	56.4%	-4.8%	18889	22517	19.2%
<i>Interest</i>	310	594	749	629	581	87.4%	-7.7%	1222	1508	23.5%
<i>PBT</i>	7480	8240	9607	12705	12063	61.3%	-5.1%	25216	28892	14.6%
<i>Exceptional</i>	-	-	-	-	-					
<i>Tax</i>	2465	2325	3463	4440	3800	54.2%	-14.4%	7316	8947	22.3%
<i>PAT</i>	5015	5915	6144	8265	8263	64.8%	0.0%	17900	19945	11.4%
<i>PAT Margin</i>	22%	25%	23%	30%	30%	8.0%	0.3%	23%	23%	0.5%

Volume outlook

Volumes from crude oil has declined by 9% YoY basis to 5.4 MMT due to lower production and slow process of ramp up activities in Q3 FY19. On the other hand volume natural gas volume has improved by 6% in Q3 FY19. Ramp-up process at KG-D6 block, Vashishta field in ongoing. Post ramp up of KG-D6 and Vasishta gas fields, production volume is expected to improve in the range of 8-12% p.a. in up-coming fiscal.

Realization hike

International crude oil prices has surged on YoY basis in the last quarter coupled with rupee depreciation against dollar have improved realizations for the ONGC on YoY basis, where as the price of the domestic gas has also surged by around 16% YoY in the same period. This hike in realizations has improved the realizations as well as the EBITDA margins of the company on YoY basis. Further no of subsidy sharing with OMC's helped the company to clock higher realizations and EBITDA margins in the last quarter. In the month of December 2018, crude oil price has fallen sharply but from month of Jan 2019, it has again started rising. Considering geo-political instability, we model crude oil price in the range of 56-58 USD/bbl in our estimates and expect company to largely maintain its current margin levels.

Upcoming capex plans

ONGC has planned investment of Rs. 80,000Cr in oil and gas field development for the period of next 3-4 years. ONGC has kick-started its USD 5.07 billion KG oil and gas project by spudding the first of the 34 wells, targeting first gas by end of 2019. KDG-A is one of the 34 wells planned under this mega project. The deepwater well has a target depth of 2,346 meters, under a water depth of 518 meters. The well is expected to produce around 5,000 barrels of oil per day (BOPD) when put to production. After successfully commissioning of its first deepwater project S1 Vasishta in eastern offshore in March 2018 (which would be yielding about 4.3 MMSCMD of gas), ONGC's flagship project from NELP block KG-DWN-98/2 in the deepwater of eastern offshore is now being readied for development. Post commissioning of these expansion plans, production is expected to improve by around 10% p.a. from FY20.

Debt repayment

ONGC has acquired stake in Hindustan Petroleum Corporation Ltd., the deal size was Rs. 35000 Cr out of which the company has taken debt of around Rs. 25000 Cr. Now the ONGC is repaying this debt. In first half of FY19 ONGC has repaid debt of Rs. 11600 Cr and as on 30 Sep 2018, debt stands at Rs.13995 Cr. This is another positive for the company as it reduces its burden in upcoming years.

Exhibit: Crude Volume trend

Crude volume declines on account of slow pace in ramp-up of wells

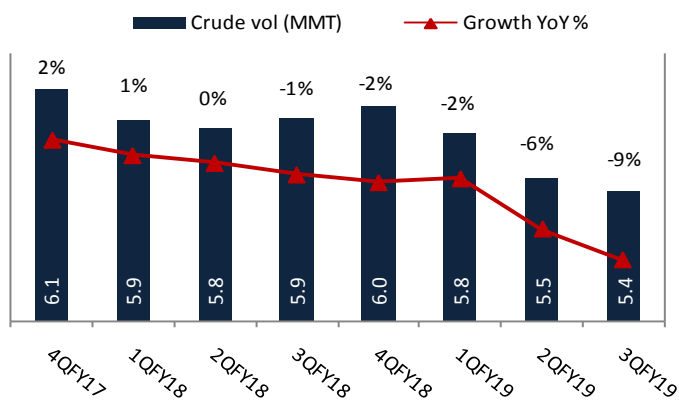


Exhibit: Crude Realization Trend

Crude oil price has increased on YoY basis where as it has declined on QoQ basis

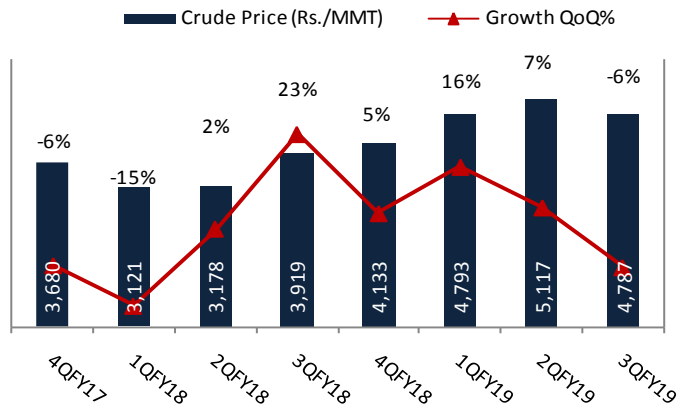


Exhibit: Gas volume trend

Gas volume has improved on account of ramp-up at S1 and Vashishta gas fields

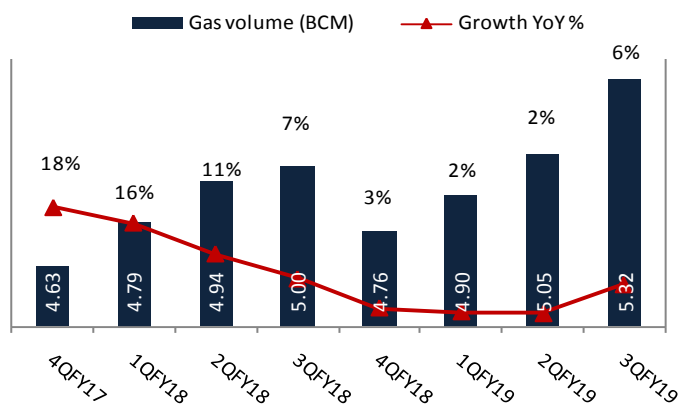


Exhibit: Gas realization trend

Following the spurt in the crude oil prices, natural gas prices has also surged significantly

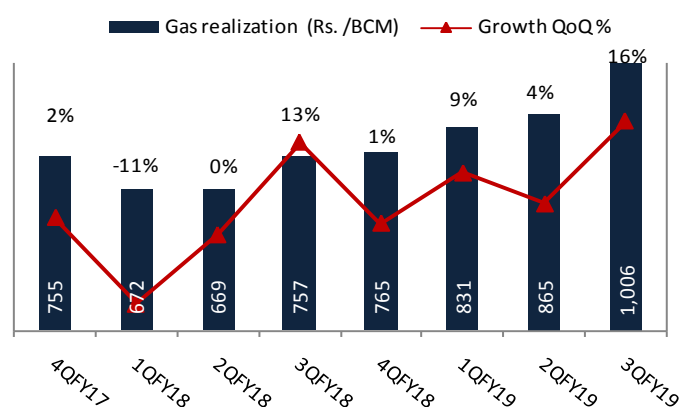


Exhibit: Revenue and Revenue growth

Revenue has increased on account of robust realization growth

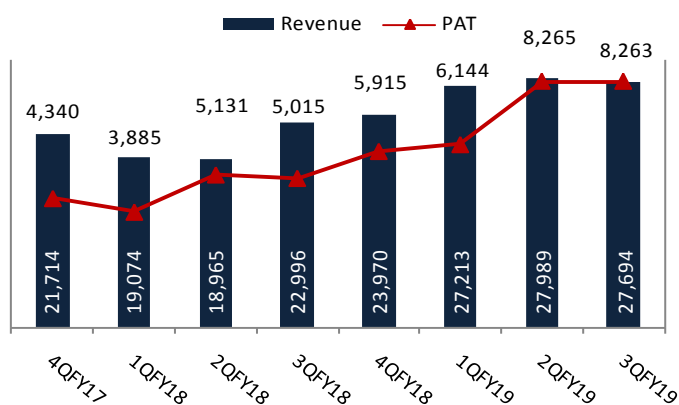
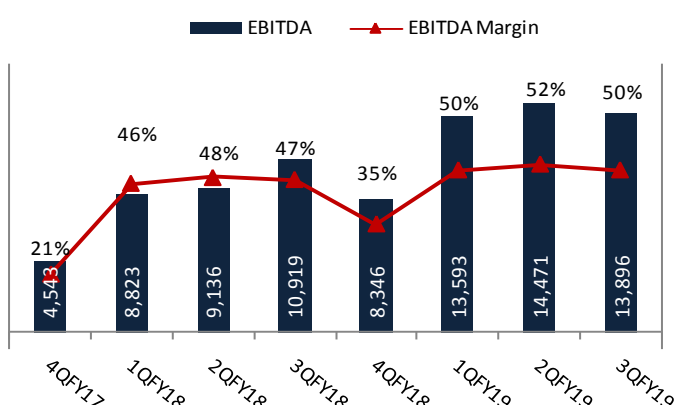


Exhibit: PAT and Revenue growth

PAT has increased on account of higher realization and improved margins



Financial Details
Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	4278	4278	4278	4278	6417	6417	6417	6417
Reserves	120175	132447	140323	161497	179122	186968	205903	219261
Networth	124453	136725	144601	165775	185538	193385	212320	225678
Debt	0	0	1393	0	0	25592	13995	8995
Total Capital Employed	124453	136725	144601	165775	185538	193385	212320	225678
Net Fixed Assets (incl CWIP)	104815	121620	126781	128175	139763	155012	159742	166235
Non Current Investments	9173	17204	18124	36828	50515	85731	85731	85731
Other Non Current Assets	1405	1132	996	810	800	733	733	733
Non Current Assets	147700	169445	177917	191101	217342	269712	274442	280935
Inventory	5704	5883	13578	5626	6165	6689	7516	7516
Debtors	6864	8166	2760	5431	6476	7773	9019	9020
Cash & Bank	13219	10799	6948	9957	9511	1013	394	2259
Other Current Assets	938	629	0	3409	1559	1598	2063	2063
Current Assets	30427	29843	30163	30773	29907	21517	24728	26596
Creditors	5341	6372	5554	5126	5155	7335	6013	6013
Provisions	23098	26509	27441	19389	21418	22560	22926	22926
Other Current Liabilities	11223	11926	11287	1639	1836	2289	2743	2743
Curr Liabilities	17474	19080	18926	17878	19233	23770	24374	24376
Net Current Assets	12953	10764	11238	12895	10674	-2253	355	2220
Total Assets	178127	199288	208080	221877	247249	291228	299170	307531

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	83005	83156	82126	77742	77908	85004	109730	109739
Change (%)	8%	0%	-1%	-5%	0%	9%	29%	0%
Other Income	5437	6713	5367	7009	7548	7884	7303	5912
EBITDA	35395	36647	32642	32240	31079	36988	54706	51889
Change (%)	-4%	4%	-11%	-1%	-4%	19%	48%	-5%
Margin (%)	43%	44%	40%	41%	40%	44%	50%	47%
Depr & Amor.	8374	10928	11451	11100	12190	14470	14685	16750
EBIT	25135	25719	21191	21140	18889	22517	40021	35139
Int. & other fin. Cost	28	0	3	1324	1222	1508	2560	2610
EBT	30544	32432	26555	23599	25216	28892	44764	38441
Exp Item	-	-	-	3227	0	0	0	-
Tax	9618.64	10337	8822	7459	7316	8947	15132	12685
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	20926	22095	17733	16140	17900	19945	29632	25755
Adjusted PAT	20926	22095	17733	13933	17900	19945	29632	25755
Change (%)	11%	6%	-20%	-9%	11%	11%	49%	-13%
Margin(%)	25%	27%	22%	21%	23%	23%	27%	23%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	17%	16%	12%	10%	10%	10%	14%	11%
ROCE	17%	16%	12%	10%	10%	10%	14%	11%
Asset Turnover	0.5	0.4	0.4	0.4	0.3	0.3	0.4	0.4
Debtor Days	30	36	12	26	30	33	30	30
Inv Days	25	26	60	26	29	29	25	25
Payable Days	23	28	25	24	24	31	20	20
Int Coverage	-	-	-	16.0	15.5	14.9	15.6	13.5
P/E	13	12	15	11	13	11	6	7
Price / Book Value	2.1	2.0	1.8	1.1	1.3	1.1	0.8	0.8
EV/EBITDA	7	7	8	5	7	6	3	3
FCF per Share	3.1	6.1	4.6	5.8	6.2	9.5	18.9	17.0
Div Yield	4.6%	4.5%	4.7%	4.0%	4.0%	3.6%	5.2%	6.1%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	30544	32432	26555	16140	17900	19945	44764	38441
(inc)/Dec in Working Capital	-3901	3092	-10851	8131	3458	521	-3413	0
Non Cash Op Exp	8374	10926	11458	11100	12190	14470	14685	16750
Int Paid (+)	28	0	3	1324	1222	1508	2560	2610
Tax Paid	-9458	-7808	-7945	-6745	-5862	-7280	-15132	-12685
others	6615	-754	5744	9943	3881	8372	186	0
CF from Op. Activities	32201	37888	24964	39894	32788	37537	43650	45115
(inc)/Dec in FA & CWIP	-28199	-30012	-25988	-25145	-25319	-33875	-19415	-23244
Free Cashflow	4002	7876	5898	7458	7952	12153	24235	21871
(Pur)/Sale of Inv	852	0	0	-3003	-631	3634	0	0
others	3688	-538	1075	2756	4163	-31981	0	0
CF from Inv. Activities	-23659	-30550	-24913	-25392	-21787	-62222	-19415	-23244
inc/(dec) in NW	0	0	0	0	0	0	0	0
inc/(dec) in Debt	-4500	0	1393	-1393	0	54917	-11597	-5000
Int. Paid	-28	0	-2	-5	-3	-327	-2560	-2610
Div Paid (inc tax)	-10920	-9757	-9488	-5917	-11452	-8915	-10697	-12397
others	0	0	0	0	0	0	0	0
CF from Fin. Activities	-15448	-9757	-8098	-7316	-11455	45676	-24854	-20006
Inc(Dec) in Cash	-6906	-2420	-8047	7186	-454	20991	-619	1865
Add: Opening Balance	20125	13219	1243	119	14	43	1013	394
Closing Balance	13219	10799	118	14	43	30	394	2259

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