## RESULT UPDATION

# ONGC

ONGC reported lower than expected sales in 2QFY13 on the back of lower crude oil through put, higher subsidy burden and lower realization of crude oil. The company reported sales growth of -13% YoY to Rs.198 bn as against expectation of Rs.217.7 bn. Lower sales growth was primarily due to lower sales volume of crude oil sales. However sales volume of crude combined with JV remain stable at 5.865 MMT as against 5.9 MMT in 1QFY13 and 5.814 MMT in 2QFY12. ONGC's gas sales volume including JV was 6.358 BCM as against 6.417 BCM in 1QFY13 and 6.386 BCM in 2QFY12.

In 2QFY13, the company reported lower value added products (VAP) production and sales volume. ONGC's VAP sales volume for the quarter was 777000 tones as against 797000 tones sales in 2QFY12 and 733000 tones in last quarter same year.

Crude oil realization for the quarter dropped by 6.1% YoY and flat on QoQ basis to $109.85/bbl. Net realized crude oil price for the quarter was $46.8/bbl as against $86.71/bbl reported in last year same quarter and $46.62/bbl reported in preceding quarter. In rupees term net realization was Rs.2585/bbl as against Rs.3799/bbl in 2QFY13 and Rs.2527/bbl in 1QFY12.

Under the subsidy sharing mechanism ONGC reported Rs.12330 Cr subsidy burden towards partly compensated revenue loss of oil marketing companies. Last year same quarter ONGC reported subsidy burden of Rs.5713 cr and Rs.12346 cr in 1QFY13. But as a percentage term, share of under recovery remain same. Oil marketing companies reported Rs.151 bn of total under recovery of which ONGC's share was 81.6% in comparison to 82% in 1QFY13 and 80.2% in 2QFY12.

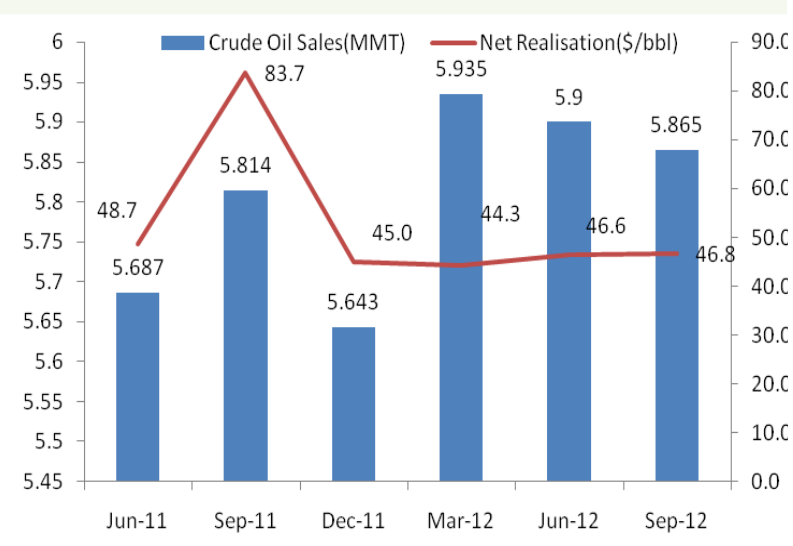
Lower sales growth and higher operating expenses led EBITDA de growth of 43% YoY and 16.5% QoQ to Rs.83 bn as against expectation of Rs.119.4 bn. Consequently EBITDA margin also declined to 42% versus 64% in 2QFY12 and 49% in 1QFY13.

ONGC reported drop in depletion, depreciation and amortization expenses (DDA). The company reported 50% drop in DDA expenses to Rs.1648 cr in 2QFY13 versus Rs.1998 cr in 1QFY13 and Rs.3278 cr in 2QFY12. Sharp drop in DDA expenses was due to lower write off for dry well.

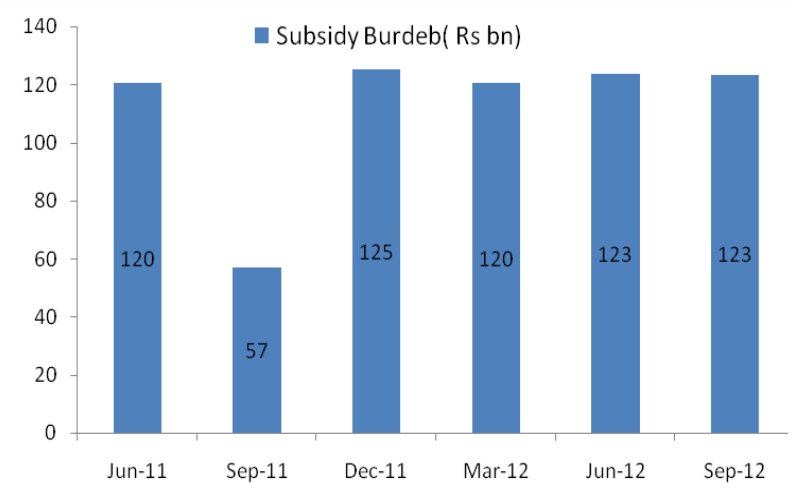
Despite higher other income and lower DDA expenses, profit of the company declined by 32% YoY and 3% QoQ to Rs.59 bn as against expectation of Rs.64bn. The company reported other income of Rs.1901 cr as against Rs.1133 cr in 2QFY12 and Rs.1038 cr in 1QFY13. Profit margin for the quarter was 30% versus 38% in last year same quarter and same in previous qrt.

At the end of 2QFY13, the company has surplus of Rs.20915 cr which company will use surplus cash to fund capex. Moreover ONGC's subsidy ONGC Videsh and MRPL are not generating cash like ONGC. So capex requirement for these companies has to fulfill by parent company ONGC. This fiscal year, ONGC has planned to incur capex of Rs.12500 cr.

At the price of Rs265 stock is trading at 10.5 times of expected earnings and 3.7 times of EV/EBITDA for FY13E. We have neutral view on the stock on back of lower crude sales volume, lower net realization, higher subsidy burden and lower than expected performance.




(Source: Company/Eastwind)

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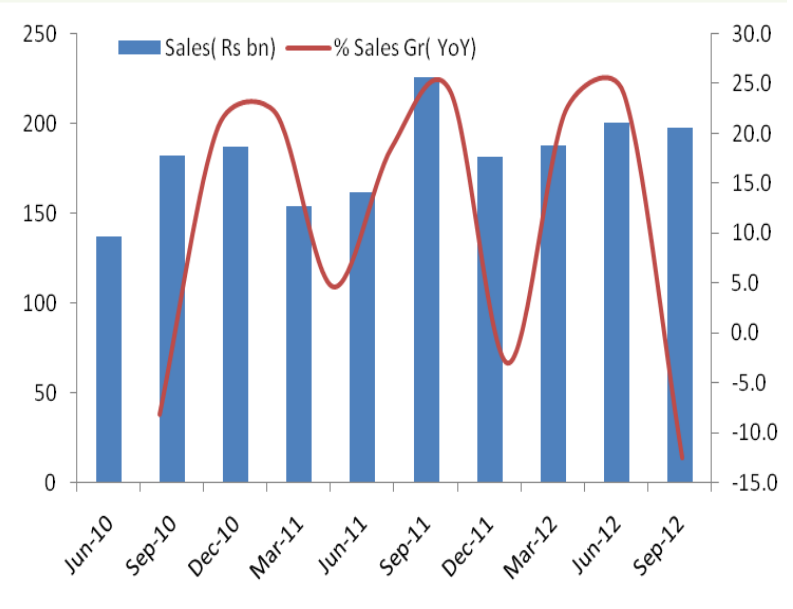


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