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LONG HAUL

Oil & Gas

Samudra Manthan: Harbinger of long-term growth?

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Oil & Gas

Long Haul

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Coverage Universe

Name of the Company	Rating	CMP (INR)	TP (INR)
Bharat Petroleum Corporation	HOLD	324	305
GAIL (India)	BUY	178	206
Gujarat Energy	HOLD	248	275
Hindustan Petroleum Corporation	Reduce	366	350
Indian Oil Corporation	Accumulate	139	147
Indraprastha Gas	BUY	150	178
Mahanagar Gas	Accumulate	1,069	1,254
Mangalore Refinery & Petrochemicals	HOLD	170	150
Oil & Natural Gas Corporation	Accumulate	232	273
Oil India	Accumulate	483	551
Petronet LNG	Accumulate	301	297
Reliance Industries	BUY	1,277	1,675

Samudra Manthan: Harbinger of long-term growth?

Quick Pointers

- Government recently announced INR841bn of upstream support through FY31
- Similar thrust in Brazil for pre-salt discoveries resulted in pre-salt accounting for ~80% of its total oil & gas production in 2025

India has 26 sedimentary basins: 16 onland, 7 across onland/offshore, and 3 entirely offshore. Unfortunately, only 7 of these have proven reserves and are under production (Category I). While offshore appears small number wise, out of total area of 3.4mn sq km, 51% is offshore. However, over the last 2 decades, number of offshore wells drilled per year have largely remained flat in the country at 110-130, while those for onland have more than doubled to 608 by FY25. That too, focus clearly has been on near-medium term with exploratory wells accounting for only 17%/30% of onshore/offshore wells in FY25 vs. nearly half, 2 decades back.

The primary reason for low offshore drilling has been high costs. While onland drilling costs from a few million to USD25mn, deepwater may cost as high as USD150mn per well. To encourage Indian companies to up their ante toward energy security, the government has recently laid out an investment of INR841bn to be spent by FY31 under a new scheme- Samudra Manthan. This has been termed as Phase I, which suggests possibility of similar initiatives in future. Our research highlights a similar framework that Brazil brought out for monetization of its costly pre-salt discoveries. How successful would Samudra Manthan be, it is difficult to fathom now, but positive developments could rerate the upstream companies – ONGC and OINL – and create long-term wealth.

Samudra Manthan – Strengthening energy security: Currently, India's import dependence stands at 87% for oil and 53% for natural gas. With demand for petroleum products expected to grow at 3-4%, unless we ramp up our oil and gas production rapidly, our dependence would stand at 91%/65% for oil/ gas by 2035. As a result, the government has announced INR841bn Samudra Manthan primarily for offshore upstream exploration and development.

Brazil's framework for pre-salt monetization provided a similar boost: First commercial discovery in Brazil was made in 2006 and the first well incurred an investment of USD240mn and took over a year for drilling. As a result, the government came out with a separate framework just to encourage monetization of pre-salt discoveries in 2010. The rest, as they say, is history – pre-salt accounted for ~80% of total oil and gas production of the country by 2025.

Will it benefit upstream companies: Samudra Manthan would definitely help both ONGC and OINL in the long run. However, it may be noted that ~67% of ONGC's total production comes from fields that are witnessing structural decline in production. Thus, only time would tell whether the scheme would result in any growth. **We highlight both ONGC and OINL as potential long-term investment bets, should the scheme result in overall growth in production.**

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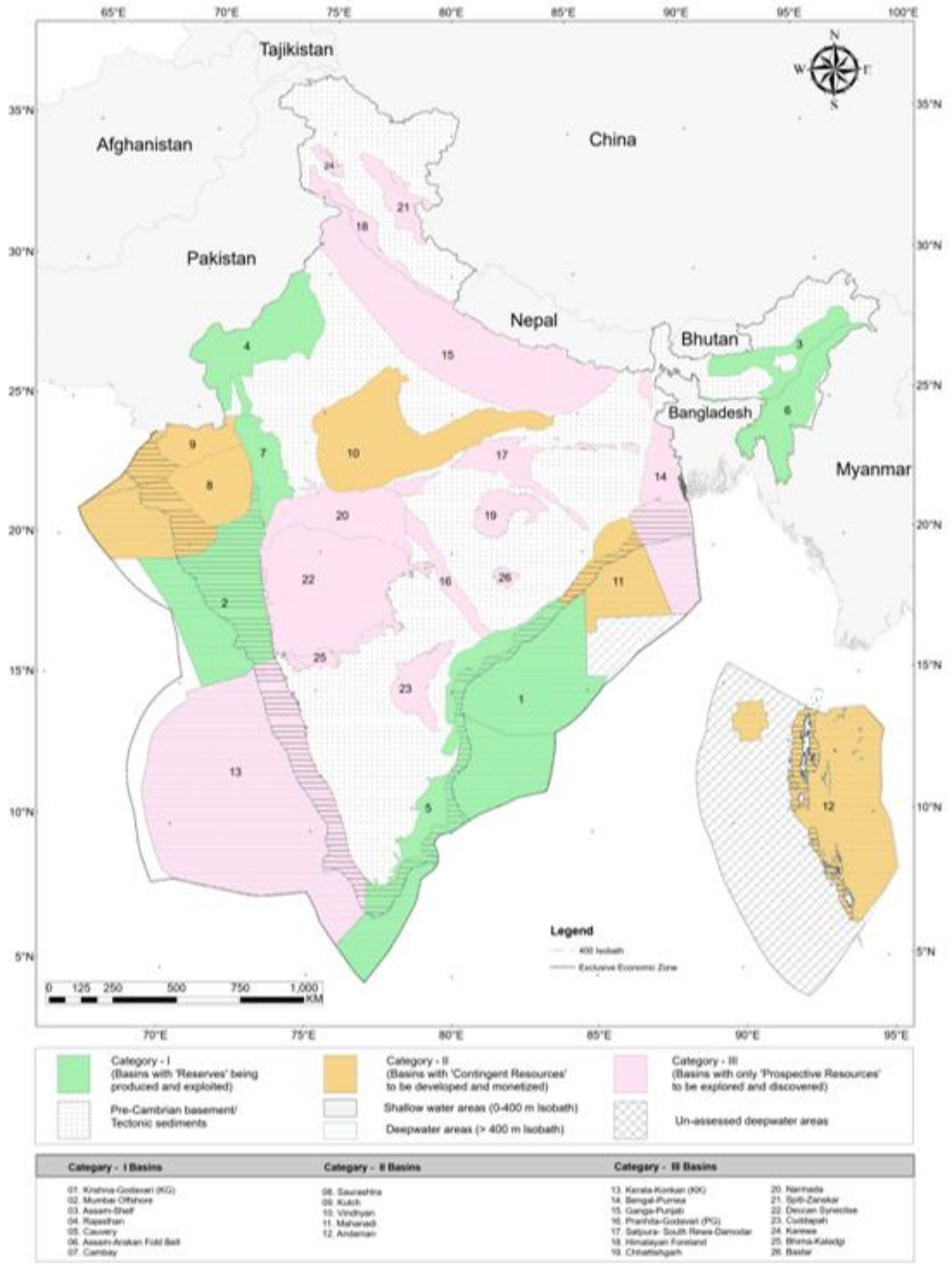
Not much to show and tell in domestic E&P

Largely unexplored sedimentary basins

India has a total of 26 sedimentary basins spread across 3.4mn sq km. Out of these, 16 are onland, 7 are both onland and offshore, while 3 are entirely offshore. Area wise, offshore accounts for 51%. So far, only 7 out of total 26 sedimentary basins are classified in Category I (with proven reserves and under production). Area wise, Category I accounts for only 30% of the total basinal area.

Exhibit 1: Sedimentary basins in India



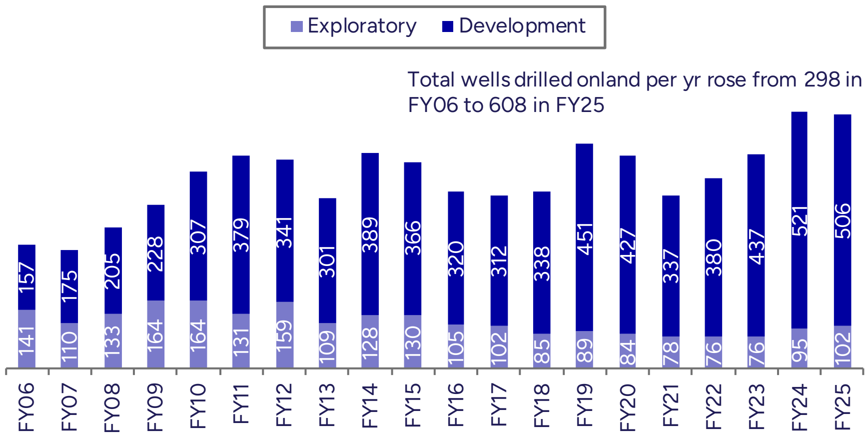
Source: DGH, PL

Limited focus on offshore exploration

Although industry standards vary significantly, an onland well may cost up to USD25mn, while an offshore well may cost up to USD50mn, and a deep-water well may cost USD150mn. Considering the high cost as well as the technology involved, drilling in India appears to have been restricted mainly toward onland basins. During FY06-25, onland wells (exploratory and development) drilled per year nearly doubled to 608 in FY25. However, drilling of offshore wells per year has broadly remained in the 110-130 wells per year band.

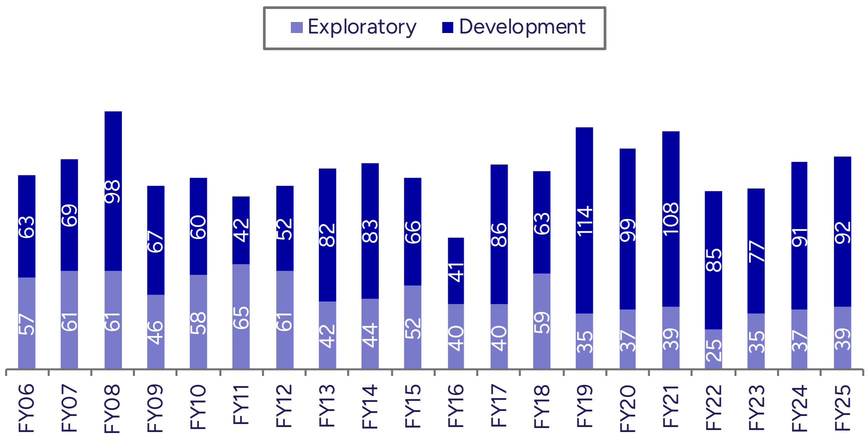
Out of these too, focus is on short-medium term production. Exploratory wells accounted for 47.5% of onland and offshore wells drilled in FY06. However, by FY25, exploratory wells have slowed down to merely 17% of onland total wells and 30% of total offshore wells, suggesting that long-term production growth could suffer even more.

Exhibit 2: Onland wells drilled per year



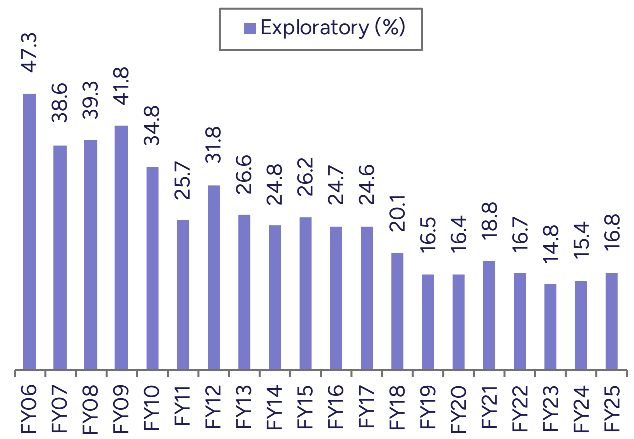
Source: Indian PNG Statistics, PL

Exhibit 3: Offshore wells drilled per year – No improvement over last 2 decades



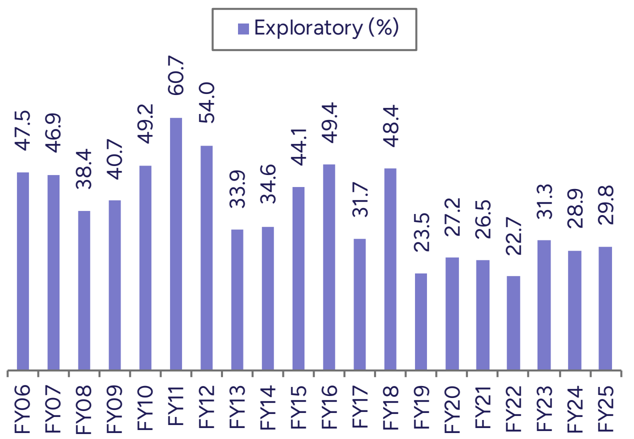
Source: Indian PNG Statistics, PL

Exhibit 4: Onshore: Decreasing exploratory wells (% of total)



Source: Indian PNG Statistics, PL

Exhibit 5: Offshore: Decreasing exploratory wells (% of total)

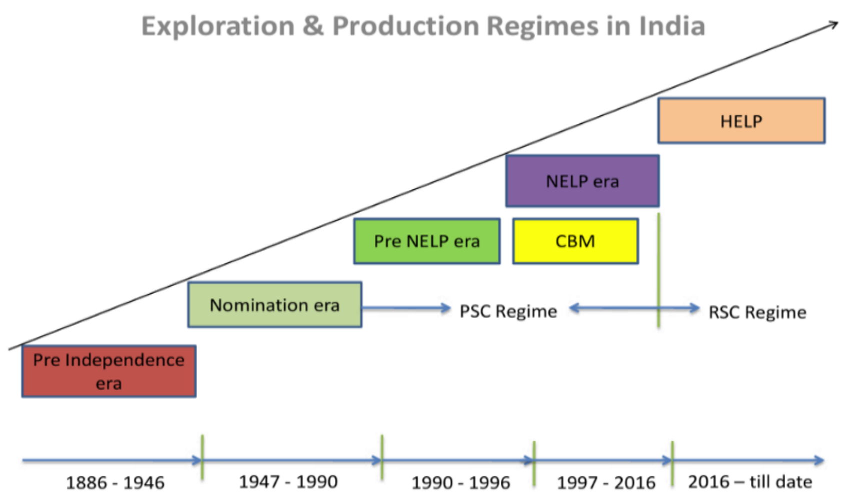


Source: Indian PNG Statistics, PL

Continuous thrust on exploration

A long series of upstream policies have been introduced over the past few decades. Post National Exploration Licensing Policy (NELP) Round IX in 2010, the government shifted toward revenue sharing contracts with introduction of Discovered Small Fields (2015) and Hydrocarbon Exploration and Licensing Policy (HELP) in 2016.

Exhibit 6: Various exploration regimes in India

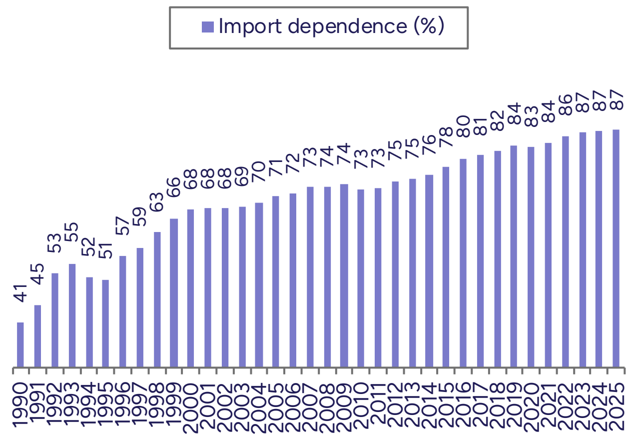


Source: PNG Stats, PL

Import dependence keeps rising at an alarming pace

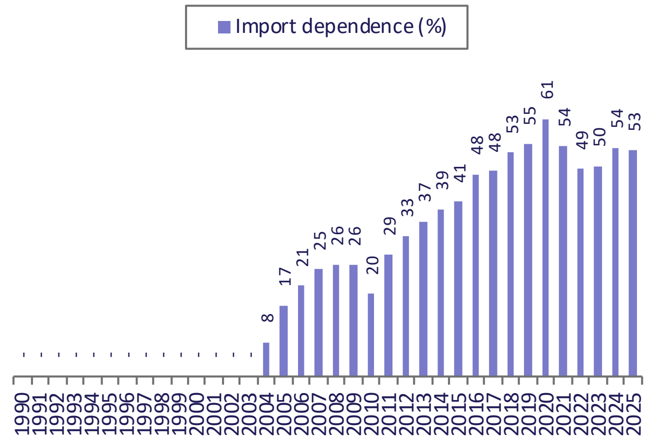
India's import dependence has risen from 47%/0% in 1990 to 87%/53% in 2025 for oil/ gas. Although we are a net exporter of petroleum products now and our gas consumption has also risen with larger spread of pipeline infrastructure, import dependence has been a cause of worry. Concerns are not only on account of price volatility but also from the point of view of availability given ongoing geopolitical issues and ever-changing alliances, which can put India on a backfoot in times of crisis.

Exhibit 7: Import dependence for oil at 87% in 2025



Source: Indian PNG Statistics, PL

Exhibit 8: Import dependence for gas at 53% in 2025



Source: Indian PNG Statistics, PL

Samudra Manthan comes at an opportune time

Specifically for offshore

Disruptions in the Middle East since Feb'26 have kept all oil and gas importing nations on the edge. That, combined with ever changing political alliances, puts India at dual risk of price volatility and lack of access, which can be catastrophic. While basins such as Krishna-Godavari, Cauvery, Mahanadi and Andaman region have long been identified as prospective areas, the newly introduced Samudra Manthan scheme aims to provide an additional policy push to offshore exploration and production.

Considering the high cost of drilling deep-water wells, a key offering is to provide 50% financial support for the drilling, subject to a limit INR6.8bn per well.

Exhibit 9: Samudra Manthan focusses only on offshore with INR841bn outlay in Phase I by FY31

Component	Activity	Outlay (INR bn)
Offshore data acquisition	2D seismic data acquisition for basin-wide coverage	120
	3D seismic data acquisition (and other techniques)	125
	NDR data re-processing and AI tools implementation	40
Offshore exploration and infrastructure-led production	Offshore exploration acceleration	432
	Infrastructure-led deepwater production and exploration	100
	Development of oil and gas manufacturing and services zones	20
Monitoring & support activities		4
Total		**841**

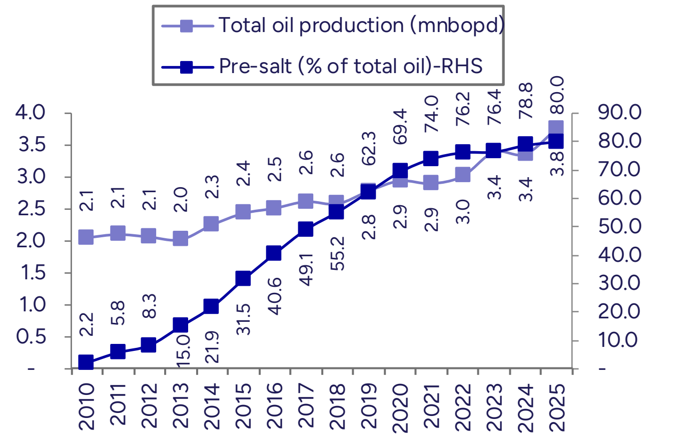
Source: DGH, PL

Brazil pre-salt offers valuable insights

Brazil discovered its first large-size commercial pre-salt discovery in 2006. It took USD240mn and more than a year to drill the first well. As a result of high cost, the government came up with a framework to boost investments in pre-salt discoveries in 2010. Most notable was to shift from concessionary regime to production sharing regime. Under the older concessionary scheme, the risk of investing was entirely with the exploration company along with signature bonus being a part of bidding criterion. However, under the production sharing regime, Petrobras was given the right of first refusal along with minimum 30% stake if it decided to explore. Along with that, the government decided upon production sharing post cost recovery as a criterion. This substantially reduced the risk and resulted in successful investments in the pre-salt polygon.

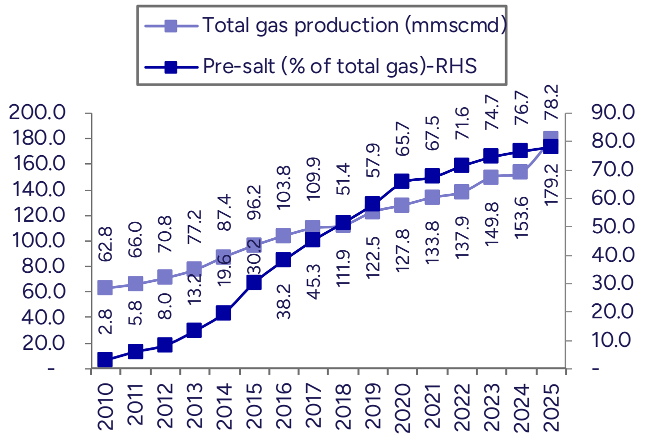
Over the years, this has resulted in pre-salt accounting for as much as 80% of Brazil's total oil production and 78% of total gas production by 2025.

Exhibit 10: Oil production: Pre-salt has risen to 80% of total



Source: Brazil Statistical Year Book, PL

Exhibit 11: Gas production: Pre-salt has risen to 78% of total

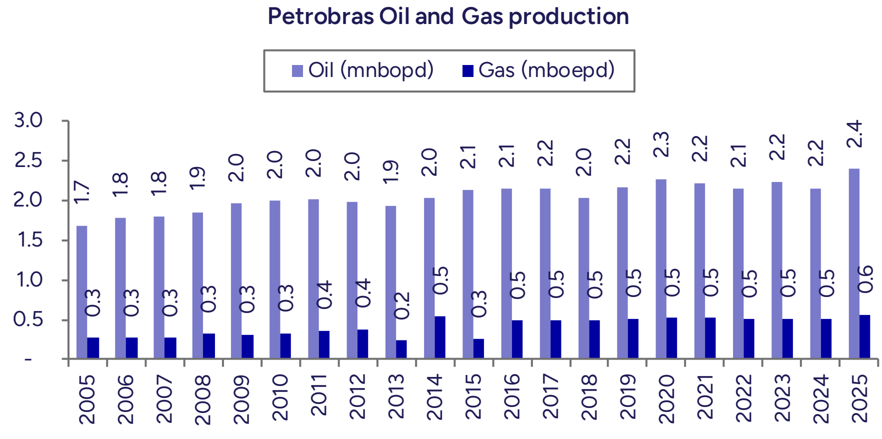


Source: Brazil Statistical Year Book, PL

However, has Petrobras benefitted?

Oil and gas production volume for Petrobras grew by CAGR of 1.8% for oil and 3.7% for gas over 2005-25 from its own and net interest contribution of fields in Brazil. While some may argue that the growth is not that phenomenal, one may remember that just like ONGC, some of the fields of Petrobras would also be witnessing natural decline. Overall, 2 decades of growth does prove that the framework for pre-salt polygon has benefited the company immensely.

Exhibit 12: Oil/ production of Petrobras logs 1.8%/ 3.5% CAGR during 2005-25



Source: Company, PL

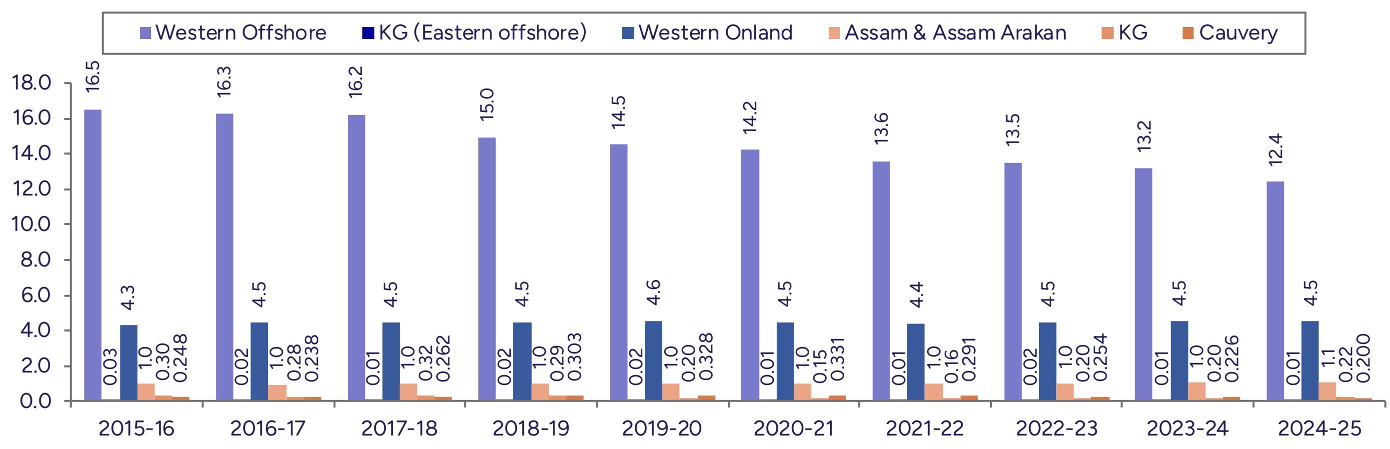
ONGC and Oil India may benefit in the long term

ONGC: Mumbai offshore accounts for ~60% of total domestic production

Out of 20.9mmt produced from domestic fields, including JV interests, in FY25, Western Offshore accounted for 12.4mmt or ~60%. Similarly, out of total own domestic gas production, 72% came from Western Offshore. The first production from Western Offshore commenced way back in 1976, although certain parts of the basin may have commenced production much later. Normally, a field starts showing natural decline after 4-5 years of peak production, which may be extended by another 4-5 years through secondary/tertiary recovery techniques followed by continuous decline each year. To ONGC's credit, it has been able to arrest the decline to lower single digits in FY25.

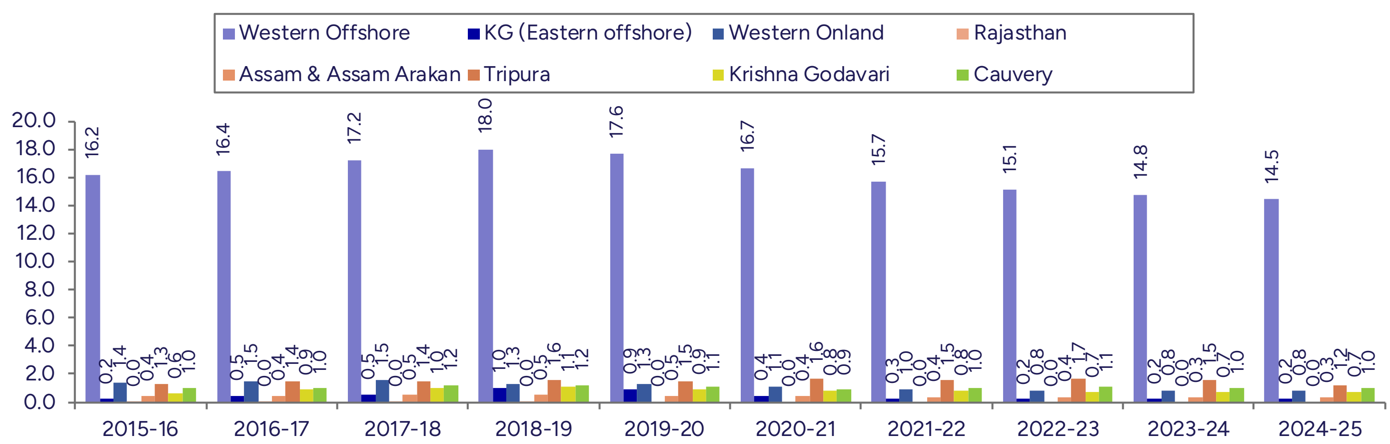
However, as most other fields have also been under production since ages, despite commencement of production from KG-DWN-98/2 and Daman, overall production continues to decline. Over the last decade (FY17-26), ONGC's oil production from own domestic fields has declined by 1.5% CAGR and gas has declined by 1.4% CAGR.

Exhibit 13: ONGC's basin-wise oil production (nomination fields; mmt)



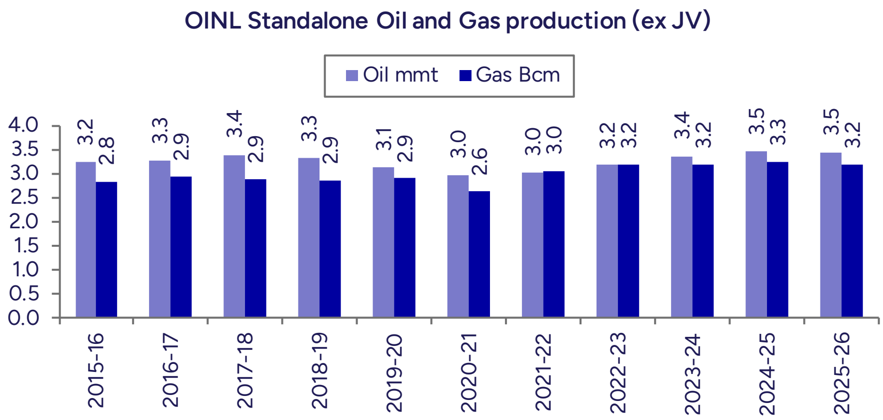
Source: Indian PNG Statistics, PL

Exhibit 14: ONGC's basin-wise gas production (nomination fields, bcm)



Source: Indian PNG Statistics, PL

Exhibit 15: ONGC's decadal oil/gas production from own domestic fields

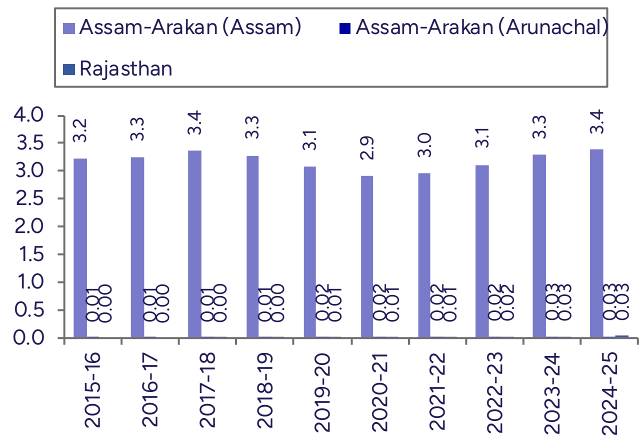


Source: Company, PL

Oil India: Assam-Arakan commenced production in 1886

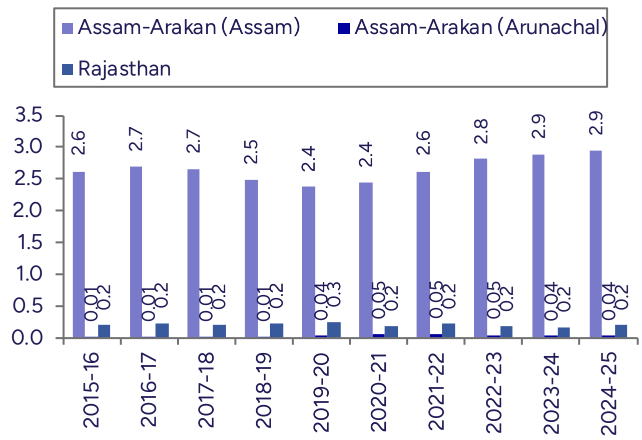
Rajasthan field of OINL commenced production from 2009. All other fields of OINL commenced production much earlier. However, these would also have certain parts that came into production much later. Overall, OINL's domestic oil production from own fields has witnessed 0.6% CAGR, while gas has witnessed 0.9% CAGR over FY17-26.

Exhibit 16: OINL basin-wise oil production (nomination fields, mmt)



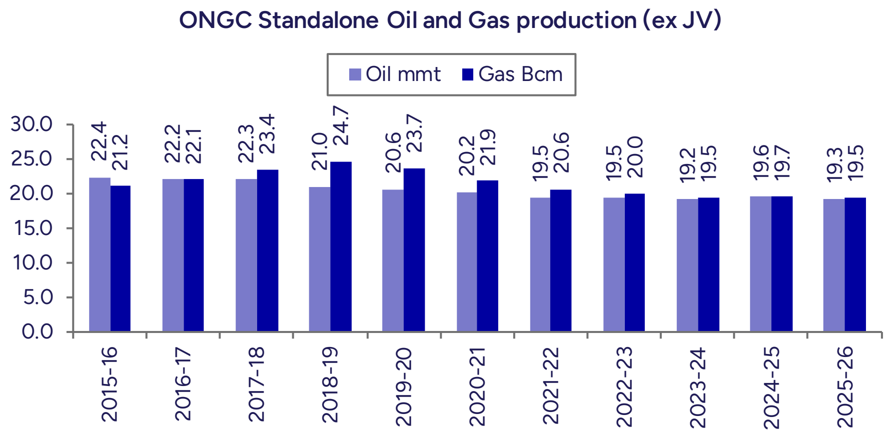
Source: Indian PNG Statistics, PL

Exhibit 17: OINL basin-wise gas production (nomination fields, bcm)



Source: Indian PNG Statistics, PL

Exhibit 18: OINL oil/gas production from own domestic fields



Source: Company, PL

Will Samudra Manthan drive long-term growth?

Substantial new production required for overall growth

If we extrapolate the past 5 years' decline to next 5 years, ONGC would require additional production of 1.9mmtpa in 5 years to register 5% volume growth. Oil India anyway is expected to grow its oil production from 3.5mmtpa in FY26 to 4.0mmt in FY27 and 4.2mmt by FY29. Gas production is also expected to grow from 3.2bcm to 3.8bcm and 5.0bcm over longer term once NRL's expansion gets commissioned and North-East Gas Grid becomes operational. For another 5% growth over long-term growth, Oil India would require 0.2mmtpa and 0.3bcm of new production.

Exhibit 19: ONGC sensitivity to volume growth of 5%

ONGC FY28 Standalone	Base case	Vol up 5%	Change (%)
Oil production (mmt)	20.8	21.8	
Gas production (bcm)	20.8	21.8	
EBITDA (INR bn)	882.3	909.3	3.1%
EPS (INR/share)	31.2	32.2	3.3%

Source: Company, PL

Exhibit 20: OINL sensitivity to volume growth of 5%

OINL FY28 Standalone	Base case	Vol up 5%	Change (%)
Oil production (mmt)	4.0	4.2	
Gas production (bcm)	3.5	3.6	
EBITDA (INR bn)	120.7	129.5	7.3%
EPS (INR/share)	53.4	57.1	6.9%

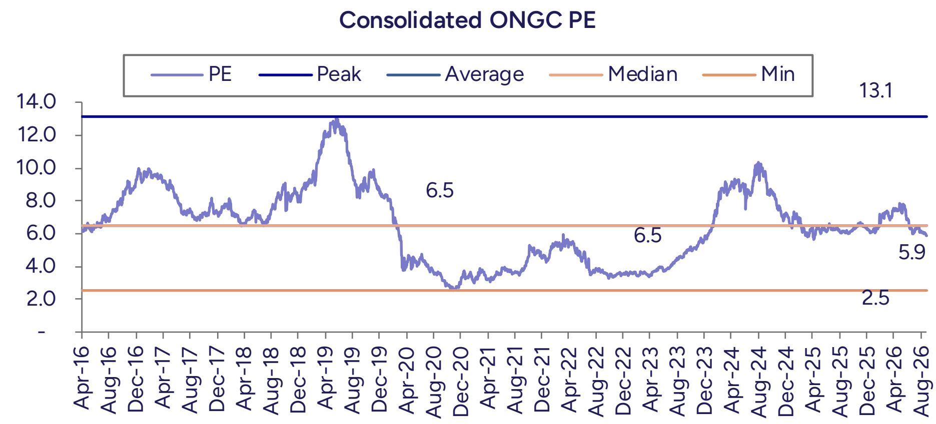
Source: Company, PL

Valuation and recommendation

We currently have 'Accumulate' rating on ONGC and OINL. We value ONGC's standalone business at 8x FY28E EPS and add INR63/share for the value of its listed investments, arriving at TP of INR273/share. For Oil India, we value the standalone business at 10x FY28E EPS and add INR109/share for the value of its investments in NRL and other JVs, arriving at TP of INR511/share.

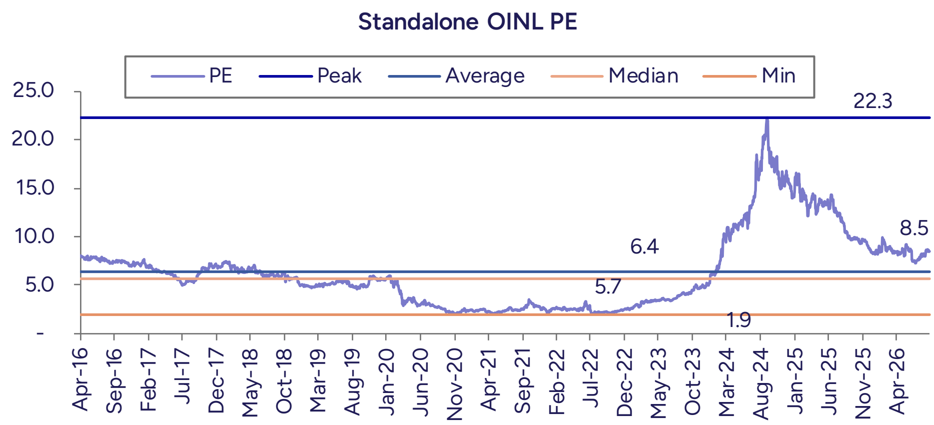
A successful outcome from the upcoming Samudra Manthan initiative could provide a potential long-term re-rating catalyst for both ONGC and Oil India, with meaningful discoveries offering upside to our current estimates and valuations.

Exhibit 21: ONGC PE band chart



Source: Company, PL

Exhibit 22: OINL PE band chart



Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
1	Aarti Industries	Accumulate	526	489
2	Bharat Petroleum Corporation	HOLD	305	310
3	Bharti Airtel	BUY	2275	1978
4	Clean Science and Technology	HOLD	745	734
5	Deepak Nitrite	Reduce	1586	1750
6	Fine Organic Industries	BUY	6357	5028
7	GAIL (India)	BUY	206	181
8	Gujarat Energy	HOLD	275	274
9	Gujarat Fluorochemicals	HOLD	4498	4566
10	Hindustan Petroleum Corporation	Reduce	350	385
11	Indian Oil Corporation	Accumulate	147	140
12	Indraprastha Gas	BUY	178	152
13	Jubilant Ingrevia	Hold	711	745
14	Laxmi Organic Industries	Reduce	169	182
15	Mahanagar Gas	Accumulate	1254	1121
16	Mangalore Refinery & Petrochemicals	HOLD	150	157
17	Navin Fluorine International	Accumulate	8812	8256
18	NOCIL	HOLD	179	171
19	Oil & Natural Gas Corporation	Accumulate	273	240
20	Oil India	Accumulate	551	453
21	Petronet LNG	Accumulate	297	279
22	Reliance Industries	BUY	1675	1327
23	SRF	Reduce	2482	2632
24	Sudeep Pharma	SELL	855	1100
25	Vinati Organics	Accumulate	1443	1296

PL's Recommendation Nomenclature (Absolute Performance)

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

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