

November 15, 2019

Q2FY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	230		230	
Sales (Rs. m)	46,38,351	49,90,132	51,17,681	55,37,321
% Chng.	(9.4)	(9.9)		
EBITDA (Rs. m)	8,09,519	8,34,328	8,17,196	8,64,124
% Chng.	(0.9)	(3.4)		
EPS (Rs.)	26.7	27.1	26.1	28.1
% Chng.	2.6	(3.6)		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	4,535	4,638	4,990	5,313
EBITDA (Rs. bn)	839	810	834	963
Margin (%)	18.5	17.5	16.7	18.1
PAT (Rs. bn)	355	336	340	488
EPS (Rs.)	28.2	26.7	27.1	38.8
Gr. (%)	40.2	(5.2)	1.2	43.3
DPS (Rs.)	7.4	6.9	7.2	8.8
Yield (%)	5.4	5.0	5.3	6.4
RoE (%)	16.8	13.1	11.0	14.6
RoCE (%)	16.2	12.2	10.4	11.4
EV/Sales (x)	0.6	0.6	0.5	0.6
EV/EBITDA (x)	3.1	3.2	3.2	3.1
PE (x)	4.8	5.1	5.0	3.5
P/BV (x)	0.8	0.6	0.5	0.5

Key Data

ONGC.BO | ONGC IN

52-W High / Low	Rs.179 / Rs.116
Sensex / Nifty	40,286 / 11,872
Market Cap	Rs.1,713bn / \$ 23,831m
Shares Outstanding	12,580m
3M Avg. Daily Value	Rs.3273.71m

Shareholding Pattern (%)

Promoter's	62.98
Foreign	8.24
Domestic Institution	16.00
Public & Others	12.79
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.7	(17.0)	(15.4)
Relative	(4.5)	(23.1)	(26.2)

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Operating performance in-line

Quick Pointers:

- Muted volume growth and low realization hit profitability.
- Gas production volumes to move up to 32bcm for FY22E vs 24.7bcm in FY19 led by start of the deep-water projects.
- Valuations attractive, however, government divestment concerns remain an overhang.

We tweak our estimates for FY20/21E and reiterate our positive stance on ONGC as we expect crude oil prices are likely to remain range bound at current levels, which will alleviate the need for subsidies. Also, outlook on production growth has improved. However, ONGC stock has underperformed the broader index due to concerns on divestment of Government of India share and inefficient capital allocation policies. Price target remains unchanged at Rs230.

Healthy operating performance: ONGC reported Q2FY20 standalone EBITDA and PAT of Rs132.9bn (PLe: Rs129.0bn; -16% YoY) and Rs62.6bn (PLe: Rs45.2bn; -24% YoY), respectively. While the operational numbers are in line with estimates, higher other income supported PAT.

Realization come off tracking international prices: For Q2, operational profitability was hit by lower crude price realization of US\$60.3/bbl (Q1 US\$ 66.3/bbl) in the absence of any subsidy contribution. For H1FY20, net realisation improved to US\$63.2/bbl vs US\$72.3/bbl last year. ONGC's earnings are likely to rise on back of higher gas volumes along with stable crude oil and gas realization.

Muted volume rate: ONGC's Q2 crude oil production came to 5.84MMT (-4%YoY), while gas volumes were at 6.3bcm (-2% YoY). Crude oil sales were at 5.4MTPA (-1%YoY) and gas sales was at 4.9bcm (-3%YoY). While the crude oil volumes are likely to be muted till FY21E, management has guided for ramp up in gas volumes from Daman, Vasishta, Cauvery fields and expect overall FY22 gas production of ~32bcm (FY19 24.7bcm).

ONGC Videsh's (OVL's) volumes for H1FY20 were at 7.6MTOE against 7.1MTOE last year. During the same period, profits for the subsidiary has also improved to Rs15.5bn vis-à-vis Rs13.9bn last year.

Exhibit 1: Q2FY20 Result Overview (Rs mn)

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Net sales	2,44,926	2,79,892	(12.5)	2,65,547	5,10,474	5,52,020	(7.5)
Inc/dec in stock	(38)	(1,585)	(97.6)	(141)	(179)	(2,216)	(91.9)
Raw material cons	6,932	6,045	14.7	6,392	13,324	10,180	30.9
Staff cost	6,332	6,097	3.9	6,082	12,414	12,458	(0.4)
Statutory levies	58,606	66,065	(11.3)	62,361	1,20,968	1,33,393	(9.3)
Other expenditure	40,194	45,383	(11.4)	39,733	79,927	92,997	(14.1)
Exp	1,12,026	1,22,004	(8.2)	1,14,427	2,26,453	2,46,812	(8.2)
Operating profit	1,32,900	1,57,887	(15.8)	1,51,120	2,84,020	3,05,208	(6.9)
Interest	(6,818)	(6,291)	8.4	(6,461)	(13,278)	(13,777)	(3.6)
Depreciation	(62,553)	(48,488)	29.0	(61,563)	(1,24,115)	(98,754)	25.7
Other income	26,853	23,942	12.2	7,475	34,328	30,441	12.8
Profit before tax	90,383	1,27,050	(28.9)	90,572	1,80,955	2,23,118	(18.9)
Current tax	(26,650)	(37,420)	(28.8)	(23,233)	(49,883)	(66,920)	(25.5)
Profit after current tax	63,733	89,630	(28.9)	67,339	1,31,072	1,56,198	(16.1)
Deferred tax	(1,102)	(6,984)	(84.2)	(8,296)	(9,398)	(12,113)	(22.4)
Net profit	62,631	82,646	(24.2)	59,043	1,21,674	1,44,085	(15.6)

Source: Company, PL

Exhibit 2: ONGC Net Realisation

	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20
Gross realisation (US\$/bbl)	60.3	73.1	(17.4)	66.3
Net realisation (US\$/bbl)	60.3	73.07	(17.4)	66.3

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	45,34,606	46,38,351	49,90,132	53,12,733
YoY gr. (%)	25.2	2.3	7.6	6.5
Cost of Goods Sold	-	-	-	-
Gross Profit	45,34,606	46,38,351	49,90,132	53,12,733
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	-	-	-	-
Other Expenses	26,71,205	3,23,571	3,42,479	3,79,367
EBITDA	8,38,647	8,09,519	8,34,328	9,63,348
YoY gr. (%)	30.4	(3.5)	3.1	15.5
Margin (%)	18.5	17.5	16.7	18.1
Depreciation and Amortization	3,32,469	3,69,800	4,00,734	4,51,322
EBIT	5,06,179	4,39,719	4,33,594	5,12,026
Margin (%)	11.2	9.5	8.7	9.6
Net Interest	58,367	36,951	34,626	26,494
Other Income	81,488	90,493	1,03,173	1,04,293
Profit Before Tax	5,29,299	4,93,260	5,02,141	5,89,825
Margin (%)	11.7	10.6	10.1	11.1
Total Tax	2,08,802	1,26,275	1,28,548	1,50,995
Effective tax rate (%)	39.4	25.6	25.6	25.6
Profit after tax	3,20,497	3,66,986	3,73,593	4,38,830
Minority interest	(34,283)	31,098	33,707	(48,415)
Share Profit from Associate	-	511	512	513
Adjusted PAT	3,54,779	3,36,399	3,40,398	4,87,758
YoY gr. (%)	37.4	(5.2)	1.2	43.3
Margin (%)	7.8	7.3	6.8	9.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,54,779	3,36,399	3,40,398	4,87,758
YoY gr. (%)	37.4	(5.2)	1.2	43.3
Margin (%)	7.8	7.3	6.8	9.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,54,779	3,36,399	3,40,398	4,87,758
Equity Shares O/s (m)	12,580	12,580	12,580	12,580
EPS (Rs)	28.2	26.7	27.1	38.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	23,42,883	34,04,190	40,79,190	48,59,190
Tangibles	23,42,883	34,04,190	40,79,190	48,59,190
Intangibles	-	-	-	-
Acc: Dep / Amortization	30,64,739	35,30,090	42,17,680	50,11,529
Tangibles	8,76,881	12,69,128	15,56,433	16,71,322
Intangibles	-	-	-	-
Net fixed assets	21,87,857	22,60,962	26,61,247	33,40,207
Tangibles	21,81,089	22,60,602	26,60,851	33,39,772
Intangibles	6,768	360	396	436
Capital Work In Progress	6,90,564	9,26,811	7,59,568	5,69,151
Goodwill	1,40,884	1,51,304	1,65,978	1,82,120
Non-Current Investments	8,66,740	14,93,088	15,50,786	16,75,756
Net Deferred tax assets	(4,56,357)	(4,68,362)	(4,91,669)	(5,17,823)
Other Non-Current Assets	1,52,907	1,43,649	1,51,218	1,66,340
Current Assets				
Investments	50,838	55,921	61,513	67,665
Inventories	3,51,807	3,48,078	3,63,703	2,84,988
Trade receivables	1,53,961	1,66,748	1,76,588	1,94,587
Cash & Bank Balance	51,034	71,442	1,14,988	(1,52,910)
Other Current Assets	80,040	80,580	88,638	97,502
Total Assets	49,57,020	58,70,288	63,27,191	67,66,638
Equity				
Equity Share Capital	62,902	62,902	62,902	62,902
Other Equity	21,18,506	29,06,911	31,45,554	34,04,016
Total Networkth	21,81,408	29,69,812	32,08,455	34,66,918
Non-Current Liabilities				
Long Term borrowings	5,31,441	5,65,804	5,95,804	6,25,804
Provisions	2,78,499	3,05,410	3,35,951	3,69,546
Other non current liabilities	12,275	9,194	10,113	11,125
Current Liabilities				
ST Debt / Current of LT Debt	4,89,623	4,74,009	5,24,009	5,74,009
Trade payables	3,24,775	3,62,863	3,62,604	3,96,196
Other current liabilities	4,75,918	4,73,462	5,20,623	5,72,500
Total Equity & Liabilities	49,57,020	58,70,288	63,27,191	67,66,638

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	5,29,299	4,93,260	5,02,141	5,89,825
Add. Depreciation	2,40,262	2,74,057	3,01,945	3,27,780
Add. Interest	58,367	36,951	34,626	26,494
Less Financial Other Income	81,488	90,493	1,03,173	1,04,293
Add. Other	(81,488)	(90,493)	(1,03,173)	(1,04,293)
Op. profit before WC changes	7,46,441	7,13,775	7,35,539	8,39,807
Net Changes-WC	(36,042)	1,14,186	(9,117)	48,471
Direct tax	(1,59,121)	(98,652)	(1,00,428)	(1,17,965)
Net cash from Op. activities	5,51,279	7,29,309	6,25,994	7,70,313
Capital expenditures	(3,83,872)	(5,93,828)	(5,49,660)	(8,32,467)
Interest / Dividend Income	81,488	90,493	1,03,173	1,04,293
Others	5,078	(6,12,257)	(51,971)	(1,01,731)
Net Cash from Inv. activities	(2,97,306)	(11,15,593)	(4,98,458)	(8,29,904)
Issue of share cap. / premium	(94,363)	5,26,948	(22,310)	(1,31,550)
Debt changes	8,603	18,749	80,000	80,000
Dividend paid	(1,09,595)	(1,02,054)	(1,07,053)	(1,30,263)
Interest paid	(58,367)	(36,951)	(34,626)	(26,494)
Others	-	-	-	-
Net cash from Fin. activities	(2,53,722)	4,06,692	(83,990)	(2,08,307)
Net change in cash	251	20,408	43,546	(2,67,898)
Free Cash Flow	1,67,407	1,35,481	76,334	(62,154)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	2,76,941	2,67,585	2,65,547	2,44,926
YoY gr. (%)	20.4	11.6	(2.4)	(12.5)
Raw Material Expenses	6,042	6,570	6,251	6,894
Gross Profit	2,70,899	2,61,014	2,59,296	2,38,033
Margin (%)	97.8	97.5	97.6	97.2
EBITDA	1,65,708	1,23,710	1,51,120	1,32,900
YoY gr. (%)	32.3	8.7	2.6	(15.8)
Margin (%)	59.8	46.2	56.9	54.3
Depreciation / Depletion	61,517	85,084	61,563	62,553
EBIT	1,04,191	38,627	89,558	70,347
Margin (%)	37.6	14.4	33.7	28.7
Net Interest	5,807	5,337	6,461	6,818
Other Income	22,246	22,503	7,475	26,853
Profit before Tax	1,20,630	55,793	90,572	90,383
Margin (%)	43.6	20.9	34.1	36.9
Total Tax	38,002	15,347	31,529	27,752
Effective tax rate (%)	31.5	27.5	34.8	30.7
Profit after Tax	82,628	40,446	59,043	62,631
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	82,628	40,446	59,043	62,631
YoY gr. (%)	64.8	(31.6)	(3.9)	(24.2)
Margin (%)	29.8	15.1	22.2	25.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	82,628	40,446	59,043	62,631
YoY gr. (%)	64.8	(31.6)	(3.9)	(24.2)
Margin (%)	29.8	15.1	22.2	25.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	82,628	40,446	59,043	62,631
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

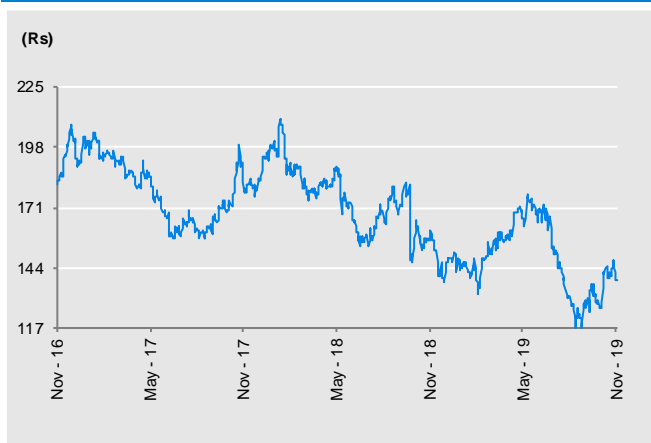
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	28.2	26.7	27.1	38.8
CEPS	54.6	56.1	58.9	74.6
BVPS	173.4	236.1	255.0	275.6
FCF	13.3	10.8	6.1	(4.9)
DPS	7.4	6.9	7.2	8.8
Return Ratio(%)				
RoCE	16.2	12.2	10.4	11.4
ROIC	10.4	7.7	7.0	7.5
RoE	16.8	13.1	11.0	14.6
Balance Sheet				
Net Debt : Equity (x)	0.4	0.3	0.3	0.4
Net Working Capital (Days)	15	12	13	6
Valuation(x)				
PER	4.8	5.1	5.0	3.5
P/B	0.8	0.6	0.5	0.5
P/CEPS	54.6	56.1	58.9	74.6
EV/EBITDA	3.1	3.2	3.2	3.1
EV/Sales	0.6	0.6	0.5	0.6
Dividend Yield (%)	5.4	5.0	5.3	6.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Gross realisation (US\$/bbl)	71	71	71	72
Subsidy (US\$/bbl)		5	5	4
Net realisation (US\$/bbl)	71	66	66	68
Oil Production (mn tons)	25	26	26	26
Gas production (bcm)	26	27	31	31
US\$/Rs	71	73	75	77
Subsidy (Rs mn)		53,866	55,481	57,146

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Oct-19	BUY	230	128
2	04-Jul-19	BUY	223	167
3	31-May-19	BUY	223	172
4	05-Apr-19	BUY	223	157
5	15-Feb-19	BUY	223	132
6	07-Jan-19	BUY	223	148

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	988	799
2	Bharat Petroleum Corporation	BUY	537	501
3	GAIL (India)	BUY	188	127
4	Hindustan Petroleum Corporation	BUY	354	310
5	I.G. Petrochemicals	BUY	369	162
6	Indian Oil Corporation	BUY	209	143
7	Indraprastha Gas	BUY	468	393
8	Mahanagar Gas	BUY	1,339	1,003
9	NOCIL	BUY	174	118
10	Oil & Natural Gas Corporation	BUY	230	128
11	Oil India	Accumulate	231	161
12	Petronet LNG	BUY	352	279
13	Reliance Industries	Accumulate	1,395	1,416

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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