

ONGC

BUY

Lower prices, impairment losses led to net loss

Summary

ONGC's Q4FY20 result was impacted negatively by higher impairment losses (Rs 49bn), higher forex loss (Rs11.1 bn) and higher dry-well write off (Rs26.4 bn). Revenue was down 20% YoY to Rs 214.6bn on the back of 20% YoY lower crude oil realization at US\$50.5/bbl. Oil sales volume declined by 7.3% YoY to 5.4mmt whereas gas sales volume declined 10.6% YoY to 4.7bcm. Further, standalone EBITDA declined by 37% YoY to Rs5 bn due to higher forex losses of Rs11.1bn. The company reported net loss of Rs31 bn while adjusted PAT declined 83% YoY to Rs7.1 bn. We forecast oil price of US\$40/50/bbl for FY21/FY22 while oil and gas production decline of 2% for FY21 and 1% growth in FY22. We resume our coverage with a BUY rating and TP of Rs95.

Key Highlights and Investment Rationale

■ Lower volume and prices both impacted revenue

Gas volumes declined by 10.6% YoY while gas realizations declined by 7.3% YoY. Further, oil production volumes declined by 7.3% YoY at 5.4mmt and oil net realizations declined by 21.1% YoY to US\$48.8/bbl in Q4FY20. Other expenses grew by 19% YoY on account of forex loss of Rs11.1 bn.

■ Lower volume hurting OVL's growth as well

For Q4FY20, OVL reported a 3% QoQ decline in its oil and gas production volume to 2.4mmt and 3.6bcm respectively. Further owing to lower prices its revenue and EBITDA dipped 19% and 23% QoQ to Rs38 bn and Rs25 bn respectively.

■ Resume coverage with a BUY rating and a TP of Rs95

The company expects its oil production volume to remain 23-24mmt over the next 2 years while gas production volume at 24bcm and to improve after KG basin which they expect to commission by end-2021. We expect capex to remain in the range of Rs300-330 bn over the next two years. We resume our coverage on the stock with a BUY recommendation. We value its standalone business on EV/EBITDA (Rs79), OVL on P/E (Rs8), KG basin on DCF (Rs7), Investments at 50% haircut (Rs16) and net debt of Rs14, which gives us a TP of Rs95/share.

| TP | Rs95 |
|-----------------------------|------|
| CMP | Rs81 |
| Potential upside / downside | +18% |
| Previous Rating | BUY |

V/s Consensus

| EPS (Rs) | FY21E | FY22E |
|--------------|--------|--------|
| IDBI Capital | 4.4 | 7.1 |
| Consensus | 15.1 | 18.0 |
| % difference | (70.9) | (60.6) |

Shareholding Pattern (%)

| | |
|-----------|------|
| Promoters | 60.4 |
| FII | 7.6 |
| DII | 17.9 |
| Public | 14.1 |

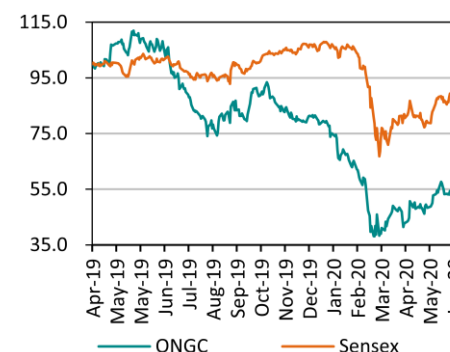
Price Performance (%)

| | -1m | -3m | -12m |
|---------------|--------|-------|--------|
| Absolute | (4.1) | 22.4 | (50.0) |
| Rel to Sensex | (10.4) | (2.9) | (39.3) |

Key Stock Data

| | |
|---------------------------------|-----------------|
| Bloomberg / Reuters | ONGC IN/ONGC.BO |
| Sector | Oil & Gas |
| Shares o/s (mn) | 12,580 |
| Market cap. (Rs mn) | 1,012,712 |
| Market cap. (US\$ mn) | 14,622 |
| 3-m daily average value (Rs mn) | 750.3 |
| 52-week high / low | Rs170 / 52 |
| Sensex / Nifty | 35,414 / 10,430 |

Relative to Sensex (%)



Financial snapshot

| Year | FY2018 | FY2019 | FY2020 | FY2021E | FY2022E |
|--------------------|---------|-----------|---------|---------|---------|
| Revenue | 845,802 | 1,092,999 | 957,013 | 665,407 | 827,449 |
| EBITDA | 372,767 | 514,422 | 406,032 | 251,625 | 329,200 |
| EBITDA (%) | 44.1 | 47.1 | 42.4 | 37.8 | 39.8 |
| Adj. PAT | 201,449 | 272,509 | 166,782 | 55,731 | 89,098 |
| EPS (Rs) | 16.0 | 21.7 | 13.3 | 4.4 | 7.1 |
| EPS Growth (%) | 2.0 | 35.3 | (38.8) | (66.6) | 59.9 |
| PE (x) | 5.1 | 3.7 | 6.1 | 18.3 | 11.4 |
| Dividend Yield (%) | 8.3 | 8.6 | 7.4 | 1.9 | 3.1 |
| EV/EBITDA (x) | 0.7 | 0.4 | 0.3 | 0.7 | 0.5 |
| RoE (%) | 10.7 | 13.8 | 8.4 | 2.8 | 4.5 |
| RoCE (%) | 9.3 | 13.3 | 8.1 | 1.2 | 2.8 |

Source: Company; IDBI Capital Research

Exhibit 1: Quarterly performance

(Rs mn)

| Rs mn | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | % YoY | % QoQ |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|
| Revenue | 2,67,585 | 2,65,547 | 2,44,926 | 2,37,101 | 2,14,562 | (20.0) | (10.0) |
| Decrease/(Increase) in Stock | 302 | (141) | (38) | (2,036) | 4,678 | 1,448.0 | - |
| Raw Material Cost | 6,268 | 6,392 | 6,932 | 6,681 | 5,882 | (6.0) | (12.0) |
| Employee Cost | 7,828 | 6,082 | 6,332 | 6,674 | 6,115 | (22.0) | (8.0) |
| Other Expenses | 57,597 | 39,733 | 40,194 | 46,139 | 63,938 | 11.0 | 39.0 |
| Statutory Levies | 71,879 | 62,361 | 58,606 | 56,671 | 48,070 | (33.0) | (15.0) |
| Survey Costs | 9,465 | 8,778 | 1,820 | 2,331 | 3,950 | (58.0) | 70.0 |
| Exploratory (Dry) Well Costs | 26,788 | 14,519 | 14,159 | 14,846 | 26,434 | (1.0) | 78.0 |
| Total Expenditures | 1,80,128 | 1,37,725 | 1,28,005 | 1,31,306 | 1,59,067 | (12.0) | 21.0 |
| EBITDA | 87,457 | 1,27,822 | 1,16,922 | 1,05,795 | 55,495 | (37.0) | (48.0) |
| EBITDA margin (%) | 32.7 | 48.1 | 47.7 | 44.6 | 25.9 | (682) | (1,876) |
| DD&A | 48,830 | 38,265 | 46,574 | 53,019 | 49,986 | 2.0 | (6.0) |
| EBIT | 38,627 | 89,558 | 70,347 | 52,776 | 5,509 | (86.0) | (90.0) |
| Finance Charges | 5,337 | 6,461 | 6,818 | 6,264 | 8,695 | 63.0 | 39.0 |
| Other Income | 22,503 | 7,475 | 26,853 | 14,025 | 13,256 | (41.0) | (5.0) |
| Exceptional Items | 0 | 0 | 0 | 0 | (48,991) | - | - |
| PBT | 55,793 | 90,572 | 90,383 | 60,537 | (38,920) | (170.0) | (164.0) |
| Total Tax | 15,347 | 31,529 | 27,752 | 18,273 | (7,938) | (152.0) | (143.0) |
| Reported PAT | 40,446 | 59,043 | 62,631 | 42,265 | (30,983) | (177.0) | (173.0) |
| Adjusted PAT | 40,446 | 59,043 | 62,631 | 42,265 | 7,049 | (83.0) | (83.0) |
| Adjusted EPS (Rs) | 3.2 | 4.7 | 5.0 | 3.4 | 0.6 | (83.0) | (83.0) |
| Crude oil Production (mmt) | 5.9 | 5.9 | 5.8 | 5.8 | 5.8 | (1.0) | - |
| Gas Production (bcm) | 6.6 | 6.4 | 6.3 | 6.2 | 6.0 | (8.0) | (2.0) |
| VAP Production (mmt) | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | (6.0) | - |
| Net oil realisation (USD/bbl) | 61.9 | 66.3 | 60.3 | 59.7 | 49.0 | (21.0) | (18.0) |
| Gas Realisation (Rs/scm) | 9.6 | 10.4 | 10.5 | 9.3 | 9.1 | (5.0) | (2.0) |

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

| Year-end: March | FY19 | FY20 | FY21E | FY22E |
|-------------------------------|------------------|----------------|----------------|----------------|
| Net sales | 1,092,999 | 957,013 | 665,407 | 827,449 |
| <i>growth (%)</i> | <i>29.2</i> | <i>(12.4)</i> | <i>(30.5)</i> | <i>24.4</i> |
| Operating expenses | (582,123) | (556,104) | (425,498) | (510,424) |
| EBITDA | 514,422 | 406,032 | 245,288 | 322,674 |
| <i>growth (%)</i> | <i>38.0</i> | <i>(21.1)</i> | <i>(39.6)</i> | <i>31.5</i> |
| Depreciation | (154,561) | (186,169) | (216,494) | (247,009) |
| EBIT | 359,861 | 219,864 | 28,795 | 75,665 |
| Interest paid | (24,921) | (28,237) | (24,874) | (27,789) |
| Other income | 72,653 | 61,050 | 71,128 | 75,304 |
| Pre-tax profit | 400,230 | 203,687 | 75,048 | 123,180 |
| Tax | (132,644) | (69,242) | (22,514) | (36,954) |
| <i>Effective tax rate (%)</i> | <i>33.1</i> | <i>34.0</i> | <i>30.0</i> | <i>30.0</i> |
| Minority Interest | - | - | - | - |
| Net profit | 267,586 | 134,445 | 52,534 | 86,226 |
| Exceptional items | (4,922) | (32,337) | - | - |
| Adjusted net profit | 272,509 | 166,782 | 52,534 | 86,226 |
| <i>growth (%)</i> | <i>35.3</i> | <i>(38.8)</i> | <i>(68.5)</i> | <i>64.1</i> |
| <i>Shares o/s (mn nos)</i> | <i>12,580</i> | <i>12,580</i> | <i>12,580</i> | <i>12,580</i> |

Cash Flow Statement

(Rs mn)

| Year-end: March | FY19 | FY20 | FY21E | FY22E |
|--------------------------------------|------------------|------------------|------------------|------------------|
| Pre-tax profit | 400,291 | 252,677 | 75,048 | 123,180 |
| Depreciation | 154,561 | 186,169 | 216,494 | 247,009 |
| Tax paid | (112,076) | (66,646) | (23,785) | (38,250) |
| Chg in working capital | (63,610) | 126,655 | 29,243 | 20,933 |
| Other operating activities | 43,873 | 78,997 | (46,254) | (47,515) |
| Cash flow from operations (a) | 423,039 | 577,852 | 250,746 | 305,357 |
| Capital expenditure | (263,191) | (333,247) | (312,295) | (309,664) |
| Chg in investments | (7,721) | (4,374) | - | - |
| Other investing activities | 66,099 | 32,477 | 67,912 | 72,056 |
| Cash flow from investing (b) | (225,828) | (345,740) | (244,383) | (237,607) |
| Equity raised/(repaid) | (40,220) | - | - | - |
| Debt raised/(repaid) | (44,608) | (134,847) | 50,000 | - |
| Dividend (incl. tax) | (109,595) | (87,504) | (22,064) | (36,215) |
| Chg in minorities | - | - | - | - |
| Other financing activities | (7,874) | (5,120) | (24,874) | (27,789) |
| Cash flow from financing (c) | (202,297) | (227,471) | 3,062 | (64,004) |
| Net chg in cash (a+b+c) | (5,086) | 4,642 | 9,425 | 3,745 |

Balance Sheet

(Rs mn)

| Year-end: March | FY19 | FY20 | FY21E | FY22E |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Net fixed assets | 1,569,860 | 1,639,246 | 1,735,047 | 1,797,702 |
| Investments | 848,815 | 724,300 | 724,300 | 724,300 |
| Other non-curr assets | 294,954 | 333,402 | 336,736 | 340,103 |
| Current assets | 283,451 | 269,860 | 200,499 | 248,136 |
| Inventories | 77,039 | 85,666 | 59,725 | 74,177 |
| Sundry Debtors | 84,400 | 47,774 | 33,307 | 41,367 |
| Cash and Bank | 5,041 | 9,682 | 19,107 | 22,853 |
| Marketable Securities | - | - | - | - |
| Loans and advances | 6,339 | 5,117 | 3,568 | 4,431 |
| Total assets | 2,997,081 | 2,966,808 | 2,996,582 | 3,110,241 |
| Shareholders' funds | 2,017,896 | 1,943,381 | 1,973,851 | 2,023,862 |
| Share capital | 62,902 | 62,902 | 62,902 | 62,902 |
| Reserves & surplus | 1,954,994 | 1,880,479 | 1,910,949 | 1,960,960 |
| Total Debt | 215,936 | 139,491 | 189,491 | 189,491 |
| Secured loans | - | 22,451 | - | - |
| Unsecured loans | 215,936 | 117,040 | 189,491 | 189,491 |
| Other liabilities | 512,016 | 595,306 | 609,054 | 623,496 |
| Curr Liab & prov | 251,233 | 288,630 | 224,187 | 273,392 |
| Current liabilities | 235,376 | 277,655 | 215,662 | 262,996 |
| Provisions | 15,857 | 10,975 | 8,525 | 10,396 |
| Total liabilities | 979,185 | 1,023,427 | 1,022,731 | 1,086,380 |
| Total equity & liabilities | 2,997,081 | 2,966,808 | 2,996,582 | 3,110,241 |
| Book Value (Rs) | 160 | 154 | 157 | 161 |

Source: Company; IDBI Capital Research

Financial Ratios

| Year-end: March | FY19 | FY20 | FY21E | FY22E |
|--|------|--------|--------|-------|
| Adj. EPS (Rs) | 21.7 | 13.3 | 4.2 | 6.9 |
| Adj EPS growth (%) | 35.3 | (38.8) | (68.5) | 64.1 |
| EBITDA margin (%) | 47.1 | 42.4 | 36.9 | 39.0 |
| Pre-tax margin (%) | 36.6 | 21.3 | 11.3 | 14.9 |
| ROE (%) | 13.8 | 8.4 | 2.7 | 4.3 |
| ROCE (%) | 13.3 | 8.1 | 1.1 | 2.7 |
| Turnover & Leverage ratios (x) | | | | |
| Asset turnover (x) | 0.4 | 0.3 | 0.2 | 0.3 |
| Leverage factor (x) | 1.5 | 1.5 | 1.5 | 1.5 |
| Net margin (%) | 24.9 | 17.4 | 7.9 | 10.4 |
| Net Debt/Equity (x) | 0.1 | 0.1 | 0.1 | 0.1 |
| Working Capital & Liquidity ratio | | | | |
| Inventory days | 26 | 33 | 33 | 33 |
| Receivable days | 28 | 18 | 18 | 18 |
| Payable days | 55 | 47 | 47 | 48 |

Valuation

| Year-end: March | FY19 | FY20 | FY21E | FY22E |
|------------------------|------|------|-------|-------|
| PER (x) | 3.7 | 6.1 | 19.4 | 11.8 |
| Price / Book value (x) | 0.5 | 0.5 | 0.5 | 0.5 |
| PCE (x) | 2.4 | 2.9 | 3.8 | 3.1 |
| EV / Net sales (x) | 0.2 | 0.1 | 0.3 | 0.2 |
| EV / EBITDA (x) | 0.4 | 0.3 | 0.7 | 0.5 |
| Dividend Yield (%) | 8.6 | 7.4 | 1.8 | 3.0 |



Notes

| | | |
|---------|-------------------|-------------------------|
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|---------|-------------------|-------------------------|

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below

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