

ONGC**₹ 325****Explore Further****Accumulate**

Feb 22, 2013

Company Background

ONGC has single-handedly scripted India's hydrocarbon saga by establishing 7.59 bn tn of In-place hydrocarbon reserves with 320+ discoveries; in fact, 6 out of the 7 producing basins have been discovered by ONGC: out of these In-place hydrocarbons in domestic acreages, Ultimate Reserves are 2.69 bn tn of Oil & Oil Equivalent Gas. ONGC has cumulatively produced 851 mn tn of crude and 532 bn cu mt of Natural Gas, from 111 fields. ONGC has bagged 121 of the 235 Blocks (more than 50%) awarded in the 8 rounds of bidding, under the New Exploration Licensing Policy of Gol. ONGC's wholly-owned subsidiary ONGC Videsh Ltd. (OVL) is the biggest Indian multinational, with 30 Oil & Gas projects in 15 countries, viz. Vietnam, Sudan, South Sudan, Russia, Iraq, Myanmar, Iran, Libya, Cuba, Colombia, Nigeria, Brazil, Syria, Venezuela & Kazakhstan.

Key Highlights

- ➔ ONGC has undertaken fast-track development of Daman cluster (B-12North & South, C-26, SD) and D-1 fields, which would augment domestic production in FY14/15. Other marginal fields (G-1, B-22, B-46 cluster) would also increase crude/NG production over FY14-16, while the JV (Cairn) and OVL (Carabobo, Azerbaijan, Syria, Kashagan) would contribute further.
- ➔ ONGC expects FY14 domestic oil production at 29.1mmt (standalone: 25.8 and JV: 3.3) and gas production at 26.5bcm (standalone: 24.6 and JV: 1.8).
- ➔ In 9MFY13, OVL production stood at 5.4mmtoe (7.2mmtoe annualized v/s 8.8mmtoe in FY12). OVL's production is impacted by lower production in Sudan and Syria and Imperial Energy in Russia. ONGC has stopped recognizing any production from Syria due to ongoing conflict in the country. Management hinted that full production might resume in Sudan in next 2 ½ months.
- ➔ Recently announced USD 1bn Azerbaijan acquisition is to be finalized by Mar 13 and if done in time, full year production would be accounted in FY13.
- ➔ ONGC's chartered-hired ultradeep water drillship DDKG1 has set a world record for drilling well in deepest water depth by an offshore drilling rig. The rig DDKG1 has spudded well NA7-1 in exploratory block KG-DWN-2004/1 in east coast India at a water depth of 3165m (10,385 feet) on Jan 23, 2013.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	605,072.0	737,646.6	876,548.7
Rev. growth (%)	(9.26)	21.91	18.83
EBITDA (INR mn)	183,188.5	165,031.3	253,369.2
Net profit (INR mn)	167,675.6	189,240.0	251,229.2
Shares outstanding (mn)	2,138.9	8,555.5	8,555.5
EPS (INR)	78.4	22.1	29.4
EPS growth (%)	3.98	(71.78)	32.76
P/E (x)	3.5	13.1	9.1
RONW (%)	20.1	20.2	20.2
ROCE (%)	20.1	20.2	19.8

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Info Codes

Reuters	: ONGC.BO
Bloomberg	: ONGC@IN
NSE	: ONGC
BSE	: 500312

Market Data

52 Wk Range (₹)	: 354 / 240
Shares in Issue (mn)	: 8555.5
Mkt. Cap (₹ bn)	: 2772.4
BSE 2 Wk Avg Vol	: 407000

Share Holding Pattern (%)

Promoters	: 69.23
DII's	: 11.16
FII's	: 05.79
Others	: 13.82

Investment Theme

ONGC has more than 50 % of total NELP exploration acreage. Of this, around 66% acreage is in high potential deep water. As bulk of this acreage is yet to be explored, we believe there is huge potential for hydrocarbon discoveries. ONGC has met with initial success in the KG block - the country's and its first ultra-deep water discovery UD-1. With increased efforts towards E&P, we expect ONGC to report more oil & gas finds in future. Implementation of government reforms on pricing front is likely to result in improved crude oil linkages for ONGC. The company has an impressive RRR>1 for last 6 years. Production likely to be flat in short-term, however we expect volume growth in long term led by IOR/EOR, marginal fields and monetization of the discovered fields. Increased capex in unexplored NELP acreage could result in significant reserve accretion in future.

Official Oil Explorer of India

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	624588.6	702236.0	12.43	797059.8	13.50
Other Income	35678.5	36723.1	2.93	81964.5	123.20
Change in Stocks	1180.4	129.1	(89.06)	913.4	607.51
Raw Material Con.	24179.5	27768.5	14.84	24485.0	(11.82)
Employee Exp.	57688.2	67282.1	16.63	67960.6	1.01
Indirect Taxes	83652.6	88697.8	6.03	102107.8	15.12
Other Exp.	312738.7	390308.5	24.80	432015.1	10.69
Operating Exp.	477078.6	573927.8	20.30	625655.1	9.01
Operating Profit	147510.0	128308.2	(13.02)	171404.7	33.59
Total Interest	144.2	251.0	74.06	3960.9	1478.05
Gross Profit	183044.3	164780.3	(9.98)	249408.3	51.36
Net Dep.	(66993.6)	(115981.5)	73.12	(123245.6)	6.26
Total Taxation	82362.3	91521.8	11.12	121424.7	32.67
Net Profit/Loss	167675.6	189240.0	12.86	251229.2	32.76

4 Years Balance Sheet

(₹ mn)

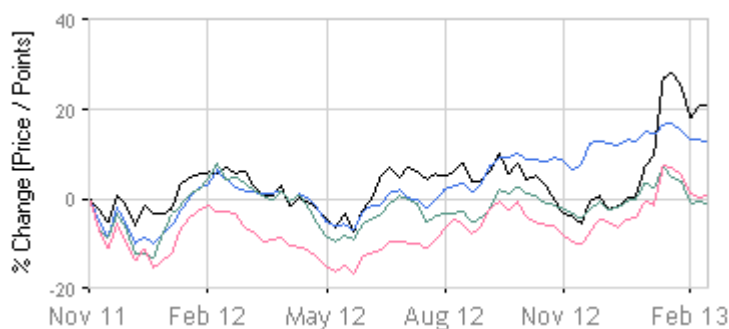
Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	787,621.5	872,875.8	975,044.4	1,174,567.4
Equity Share capital	21,388.8	21,388.8	42,777.7	42,777.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	765,965.3	851,437.2	932,266.7	1,086,789.7
Long Term Loans	267.4	49.8	0.0	0.0
Short Term Loans	0.0	0.0	0.0	45,000.0
USES OF FUNDS	787,621.5	872,875.8	975,044.4	1,174,567.4
Gross Block	975,136.1	1,558,650.1	1,735,600.6	1,919,766.1
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	509,412.4	999,343.0	1,113,448.5	1,239,196.3
Net Block	465,723.7	559,307.1	622,152.1	680,569.8
Capital Work in Progress	167,651.9	157,910.3	217,241.1	268,792.9
Investments	58,373.1	71,173.9	73,465.0	72,299.1
Current Assets	832,140.5	892,143.2	927,657.6	1,080,446.2
Less : Current Liabilities	742,773.8	816,071.9	873,431.6	939,266.7
Total Net Current Assets	89,366.7	76,071.3	54,226.0	141,179.5
Misc. Expenses not written	6,506.1	8,413.2	7,960.2	11,726.1
NOTE				
Bk Val Unquoted Investments	30,808.3	36,792.2	44,399.8	44,734.3
Mkt Val. Quoted Investments	111,439.5	197,724.7	193,179.6	180,349.1
Contingent Liabilities	357,623.2	459,222.4	348,606.9	359,602.1
Dividend (%)	320	330	335	195

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 12	Jun 12	Sep 12	Dec 12
Net Sales	149,758.00	149,098.70	142,997.90	153,824.30
Cost Of Sales	69,558.40	49,799.50	60,103.20	61,102.10
Operating Profit	80,199.60	99,299.20	82,894.70	92,722.20
Recurring Income	9,929.60	10,384.60	19,011.30	12,811.70
Adjusted PBDIT	90,129.20	109,683.80	101,906.00	105,533.90
Financial Expenses	224.30	293.10	30.60	12.10
Depreciation	13,492.50	19,975.70	16,481.00	23,416.50
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	76,412.40	89,415.00	85,394.40	82,105.30
Tax Charges	24,792.80	28,638.00	27,640.00	26,478.10
Adjusted PAT	51,619.60	60,777.00	57,754.40	55,627.20
Non Recurring Items	4,824.20	0.00	1,211.30	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	56,443.80	60,777.00	58,965.70	55,627.20

52 Week Index Relative Percentage Appreciation



ONGC vs SENSEX vs Oil & Gas vs PSU

Points to ponder

- ➔ Government announced Diesel reforms to cut under recoveries. If executed in a timely manner this could lead to a significant reduction in under recoveries. Recently announced diesel reforms (a) increasing diesel prices by INR 0.40-0.50/lt every month and (b) Market pricing for bulk buyers; would lead to a significant cut in under recoveries (50% reduction in under recoveries in FY15 over FY13).
- ➔ OVL announced 2 (Azerbaijan and Kashagan) new acquisitions worth USD6b.
- ➔ Rangarajan committee in its report has proposed a implied gas price of ~USD8/mmbtu for domestically produced gas. Oil Ministry has already moved a Cabinet note for accepting the recommendations of the committee.
- ➔ ONGC has taken structured initiatives to tap unconventional energy sources, be it unconventional gases like Coal Bed Methane (CBM), Underground Coal Gasification (UCG), Shale Gas and Gas Hydrates, or unconventional energy sources like wind, solar etc.

Risk Associated

- ➔ Slowdown in deep water development due to technological barriers.
- ➔ Acquisition of overseas assets at high valuations against stiff competition from China.
- ➔ Ad-hocism in subsidy sharing. Delay in implementation of announced diesel reforms.
- ➔ OVL's production is impacted by lower production in Sudan and Syria (geo-political tensions) and Imperial Energy in Russia. ONGC has stopped recognizing any production from Syria due to ongoing conflict in the country.

In a Nutshell

ONGC, a Fortune 500 company, is an eminent exploration and production company in India. With over 300 discoveries, it has established in-place reserves of 6.9 bn tn of oil equivalent (btoe), with ultimate reserves of 2.4 btoe. It currently accounts for ~68% of India's domestic oil and gas production. Through its 100% subsidiary ONGC Videsh Limited (OVL), it has equity investments in E&P blocks in 16 countries. Downstream presence is marked through its subsidiary (71.6% stake), MRPL. ONGC is the only fully-integrated Petro Company in India, operating along the entire hydrocarbon value chain. ONGC discovered all 6 producing Basins in independent India. It has accreted 8.5 bn tonnes of Oil & Oil Equivalent in Indian Basins with over 380 discoveries. It produces over 1.24 mn barrels of oil equivalent per day, contributing over 64% of India's production. ONGC holds largest share of hydrocarbon acreages in India (51% in PEL Areas & 67% in ML Areas). It is a unique organization in world to have all operative offshore and onshore installations. ONGC has about 1/10th of Indian refining capacity. It has maximum number of Exploration Licenses, including competitive NELP rounds. ONGC has extended its operations beyond India, and now, through its wholly owned subsidiary, OVL, is operating in 15 countries with 30 projects with cumulative investment worth over USD 15 bn, to source equity oil & gas for energy security of the country. Over the years OVL has emerged as the biggest Indian Multinational. ONGC has bagged 121 of the 235 Blocks (more than 50%) awarded in the 8 rounds of bidding, under NELP of Gol. ONGC owns and operates more than 26,600 kilometers of pipelines in India, including sub-sea pipelines. No other company in India, operates even 50 % of this route length.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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