

Strong guidance on production

- ONGC's Q4FY24 headline numbers were below consensus. EBITDA/PAT came-in at -7%/-8% mainly due to (1) sales-to-production ratio being lower mostly in gas segment and (2) higher than expected depletion of reserves.
- The company guided significant growth in Oil/Gas production of ~22MMT/25BCM in FY27E. Most of the incremental oil production from KG-98/2 field, currently at 12KBPD will touch 40/45KBPD by the end of FY25E. Incremental gas production, on the other hand, will touch ~5BCM (3.6BCM ramp up at 98/2 +1BCM addition from new fields +0.3bcm from the stranded gas field) over next 3 years. By FY26 end, ~25% of gas production would be eligible for 20% higher gas price which is linked to 'Indian Crude basket' and 12% slope.
- We believe that recent reforms in crude & gas pricing have led to significant improvement in ONGC's profitability. Accordingly, we resume coverage with 'Accumulate' rating and SoTP-based TP of Rs318. The stock also offers 4-5% dividend yield. Any sharp rise/fall in crude price & adverse regulations will be key risks to our call.

Improvement in earnings predictability

ONGC is well placed to benefit from tighter crude oil market and Govt.'s rationale for allowing it to improve net realization to \$75/bbl. New KG-basin production will not be subject to Special Additional Excise Duty (SAED); this will aid participation in crude pricing upside. The recent gas pricing reforms, which include a floor price of \$6.5/mmbtu, a hike of \$0.25/mmbtu from FY26E, and a 20% premium on gas from new wells in nomination fields (that could be applicable to ~25% of production in FY26E- govt notification awaited), and higher price for new KG basin production are expected to be earnings accretive. After a 2% annualized decline in production over FY14-24, we expect ONGC's domestic oil production to grow over FY24-26E. The production startup from new KG field drives our 3%/8% crude and gas production CAGR over FY24-26E.

We reckon KG basin production will be profitable along with firm oil price and improved profitability across Oil & Gas portfolio of ONGC anchor; we expect PAT CAGR of ~5% over FY24-26E.

Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	3,46,367	3,62,926	(4.6)	3,47,881	(0.4)
Total Expense	1,87,460	2,44,211	(23.2)	1,99,531	(6.0)
EBITDA	1,58,907	1,18,714	33.9	1,48,350	7.1
Depreciation	56,755	48,359	17.4	50,782	11.8
EBIT	1,02,153	70,355	45.2	97,568	4.7
Other Income	36,800	19,281	90.9	34,007	8.2
Interest	10,349	7,077	46.2	10,227	1.2
EBT	1,28,604	(9,792)	NA	1,21,347	6.0
Tax	29,910	(7,315)	NA	25,991	15.1
RPAT	98,694	(2,477)	NA	95,357	3.5
APAT	98,694	(2,477)	NA	95,357	3.5
			(bps)		(bps)
Gross Margin (%)	99.9	96.4	351	94.7	516
EBITDA Margin (%)	45.9	32.7	1317	42.6	323
NPM (%)	28.5	(0.7)	2918	27.4	108
Tax Rate (%)	23.3	74.7	(5145)	21.4	184
EBIT Margin (%)	29.5	19.4	1011	28.0	145

CMP	Rs 280
Target / Upside	Rs 318 / 14%
NIFTY	22,529

Scrip Details

Equity / FV	Rs 62,901mn / Rs 5		
Market Cap	Rs 3,524bn		
	USD 42.5bn		
52-week High/Low	Rs 293/ 150		
Avg. Volume (no)	1,70,46,100		
Bloom Code	ONGC IN		
Price Performance	1M	3M	12M
Absolute (%)	1	2	69
Rel to NIFTY (%)	0	1	46

Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	58.9	58.9	58.9
MF/Banks/FIs	8.4	7.6	7.4
FIs	8.4	9.2	8.9
Public / Others	24.3	24.3	24.8

Valuation (x)

	FY24A	FY25E	FY26E
P/E	8.7	8.3	8.0
EV/EBITDA	5.3	5.0	4.8
ROE (%)	14.4	13.3	12.9
RoACE (%)	11.9	10.8	10.8

Estimates (Rs bn)

	FY24A	FY25E	FY26E
Revenue	1,384.0	1,414.5	1,465.3
EBITDA	668.2	702.6	730.0
PAT	405.3	422.4	441.7
EPS (Rs.)	32.2	33.6	35.1

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Exhibit 1: ONGC's Quarterly Performance

(Rs bn)	Q4FY24	Q3FY24	Q4FY23	YoY (%)	QoQ (%)
P&L					
Net Sales	346	348	363	(4.6)	(0.4)
Raw materials	9	9	12	(20.9)	11.4
Personnel cost	7	7	8	(12.1)	(4.4)
Statutory levies	90	95	89	1.6	(5.0)
Exploration costs written-off					
- Survey costs	7	8	17	(58.7)	(11.5)
- Exploratory well costs	8	15	27	(70.8)	(47.5)
Other Expenses	75	56	90	(16.7)	34.4
Total Expenses	187	200	244	(23.2)	(6.0)
EBITDA	159	148	119	33.9	7.1
Interest	10	10	7	46.2	1.2
Recouped cost	0	0	0	0.0	0.0
Other Income	37	34	19	90.9	8.2
Recurring pre-tax income	129	121	(10)	1413.4	6.0
Tax	30	26	(7)	508.9	15.1
Recurring Net Income	99	95	(2)	4084.4	3.5
Reported Net Income	99	95	(2)	4084.4	3.5
EPS (Rs)	7.8	7.6	(0.2)	4084.4	3.5
Operational details					
Production					
Crude (mmt)	4.80	4.79	4.77	0.5	0.1
Gas (bcm)	4.77	4.80	4.91	(3.0)	(0.7)
LPG (mmt)	0.25	0.24	0.213	19.2	7.6
Naphtha (mmt)	0.23	0.23	0.231	0.4	(0.9)
C2-C3 (mmt)	0.11	0.11	0.134	(17.2)	0.0
SKO (mmt)	0.002	0.002	0.005	(60.0)	0.0
Realization					
Crude (net; USD/bl)	80.8	81.6	77.1	4.8	(1.0)
Crude (gross; USD/bl)	80.8	81.6	77.1	4.8	(1.0)
Gas (implied; USD/mbtu)	7.22	7.22	9.51	(24.2)	0.0
LPG (USD/tn)	687	658	735	(6.5)	4.3
Naphtha (USD/bbl.)	73	73	75	(2.5)	0.4
Statutory levies					
Royalty	34.6	34.8	36.5	(5.2)	(0.4)
Royalty rate (% of revenue)	10%	10%	10%	(0.7)	0.0
Cess	36	34	36	(1.4)	6.7
Cess rate (Rs/mt)	7,651	7,127	7,775	(1.6)	7.4
Production expenses (USD/bl)					
	12.1	12.0	16.0	(24.5)	0.6
Depletion	50,130	37,120	32,430	54.6	35.0
Depletion rate (USD/bl)	7.9	5.8	5.0	57.9	34.9
Depreciation	15,440	14,010	9,530	62.0	10.2

Source: Company, DART

Key Result Highlights

Net Sales (SA) came-in at Rs346bn (-5% YoY, flat QoQ), largely in line with Bloomberg consensus. Revenue decline on a YoY basis was mainly due to (1) sharp fall in gas price realization; and (2) gas production decline of 3% YoY.

Oil production grew by 2% YoY and +3% QoQ to 5.4MMT mainly due to start of Kg-98/2 oil production at a rate of 12KBPD. Gas production declined by 3% YoY, it is a natural decline and ONGC is investing to arrest this decline. Peak gas production from KG-98/2 field can be expected in FY26E at 10MMSCMD.

As per our calculations, ONGC's production cost has increased to \$12.1/bbl (+1% QoQ).

EBITDA came in at Rs159bn (+34% YoY, +7% QoQ); Growth was on account of lower survey cost and exploratory dry well cost. Other expenses were also lower by 17% YoY.

PAT of Rs98.7bn (+3% QoQ) got a boost from higher other income, on account of jumbo dividends from listed entities.

Valuation

We value ONGC's consolidated business (i.e standalone, KG 98/2, OVL & OPaL) on SOTP basis. Standalone business is valued on DCF basis while investments are valued at our TP/CMP (30% holding company discounts applied to investments). We resume coverage with 'Accumulate' rating and SoTP-based TP of Rs318.

Exhibit 2: ONGC's SoTP Valuation

Components (Rs mn)	Basis	Mar'26 Eq. Val	Value/Sh (Rs)	Comments
ONGC Standalone (ex 98/2)	DCF	32,22,129	256	WACC/TG at 11.5%/-2.0%
KG-DWN-98/2	NPV/DCF	2,51,144	20	30% Disc to NPV, 11% Disc Rate
OVL (ex Mozambique Upside)	DCF	(2,36,322)	(19)	WACC/TG at 8.3%/-5.0%
OPaL Value	EV/EBITDA	(39,096)	(3)	6.5x Mar-26 EV/EBITDA
Core Business Valuation		31,97,855	254	
Value of Investments	TP/CMP/BV	8,08,478	64	At 30% Hold Co Discount
Target Price-Fair Value		40,06,333	318	

Source: Company, DART

Exhibit 3: Schedule and Value of Investments

Listed	Type	Basis of Valuation	TP/CMP (Rs/sh)	Equity Value (Rs bn)	ONGC Stake	Pro-rata Value (Rs bn)	HoldCo Discount	Contr. to SOTP (Rs bn)	Per Share Value (Rs)
HPCL	Subsidiary	TP (Dolat)	481	682	54.9%	375	30%	262	20.8
PLNG	JV	TP (Dolat)	227	341	12.5%	43	30%	30	2.4
MRPL	Subsidiary	CMP*1.2	256	448	71.6%	321	30%	225	17.9
IOCL	Financial	TP (Dolat)	160	2,259	14.2%	321	30%	225	17.9
GAIL	Financial	TP (Dolat)	220	1,447	4.8%	70	30%	49	3.9
Total Listed						1,129		790	62.8
Unlisted									
ONGC Tripura Power Co (OTPC)	JV	BV			~50%	6	30%	4	0.3
OPaL+OTPC Warrants						19	30%	13	1.0
Petronet MHB Ltd (PMHB)	Subsidiary	BV			29%	2	30%	1	0.1
Total Unlisted						26		18	1.5
Grand Total Investments						1,155		808	64

Source: Company, DART

Earnings call KTAs

- **Production Guidance:** ONGC has a production target of 22 MMT Oil and 25 BCM gas by FY27E. Currently, producing ~20 BCM of gas, the company aims to increase it by 5 BCM (5% inc. by 2025, 10% by 2026 and 10% by 2027) through various sources- (1)3.6BCM from KG 98/2 basin;(2)1.0BCM from new fields/discoveries;(3) 0.3BCM from stranded gas assets available post completion of Urja Ganga & Indradhanush pipeline. Around 25% of the current production (on a base of 20BCM) will be eligible for a 20% higher gas price by FY26, determined by the formula of 12% slope to average Indian crude basket. Approval is pending for ~1 BCM gas to receive higher price. ONGC's current production of 2.5 mmscmd gas receives HPHT prices, and additional production at higher prices is expected to be allocated by the government to specific sectors.
- **KG 98/2 Basin production-** ONGC will be ramping up its oil production from 12KBPD to 20KBPD by Q3 and 40-45KBPD in Q4. The company targets production of 10MMSCMD gas by Q4.
- **OPAL-** ONGC has invested around Rs9.94bn in addition to Rs180bn capital infusion announced earlier. OPAL recorded a loss of Rs34.56bn at PAT level and Rs4.79bn at EBITDA level in FY24 and once the CCDs are converted into equity and feedstock issue is resolved, the company is expected to become profitable in one or two years.
- **Discoveries Made-** In FY24, 11 discoveries were made with RRR (Reserve Replacement Ratio) of 1.15 for 2P reserves. Out of 7 discoveries monetized, 3 were monetized this year and 4 in the past. ONGC will be monetizing 8-10 discoveries in a current financial year. 3-4 discoveries will be monetized from 98/2 and other discoveries will be monetized from the onshore.
- **Wells Drilled-** During FY24, ONGC drilled 541 wells, out of which 103 were exploratory and 438 were development wells.
- **Gas Production-**Currently, ONGC is producing around 2.4MMSCMD gas (1.6MMSCMD from KG 98/2 basin and 0.8MMSCMD is from HPHT fields).
- **Capex-** Capex incurred in FY24 was ~Rs370bn, which was higher because of capitalization of engineering contracts in 98/2 basin and expenditure made on pipeline replacement project (PRP-7) in Western Offshore. Around Rs20bn 'Vivaad se Vishwaas' cases have been capitalized and around Rs2.5bn was spent on developing infrastructure in Goa. **Capex for FY25E should remain in the range of INR330-350bn (not including OPAL equity infusion).**
- **OVL-** OVL's production in FY24 was 10.518MMTOE expected to go up to 11MMTOE by FY25 and 11.22MMTOE by FY26. Currently, the South Sudan project is producing 64KBPD of oil with ramp up expected in CPFI.
- **Premium Gas Price-** Premium gas price only applicable for well intervention or new gas from the nomination field.
- **Higher Depletion-** In FY24, depletion increased by INR 15.84 billion, primarily at Western Offshore, rising by INR 14.46 billion due to increased facilities and abandonment costs of various fields, along with changes in reserve production mix. Going forward, depletion is projected to remain at similar levels, with some additional depletion expected from the 98/2 basin.
- **Higher Depreciation-** Depreciation for FY24 increased by Rs12.92 billion at the 98/2 project compared to FY23. This rise was primarily due to the increase in depreciation on the ROU asset of FPSO.
- **Jackup Rigs-** Currently, ONGC has 2 floaters and 37 offshore jackup rigs under operation, out of which 6 rigs are owned by ONGC and rest are hired.
- **Higher other Opex-** In FY24, operating expenses rose by Rs9.01 billion compared to FY23. Of this increase, Rs3.81 billion was allocated to VAT amnesty payment at Western Offshore, Rs1.7 billion to interest payments for the 'Vivaad se Vishwaas' scheme, Rs0.62 billion to post-cyclone repair and maintenance, Rs1.91 billion to Assam repair expenditure, and Rs0.21 billion for repair and maintenance of CBM assets.

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24A	FY25E	FY26E
Revenue	15,55,173	13,84,021	14,14,489	14,65,345
Total Expense	8,40,187	7,15,871	7,11,911	7,35,306
COGS	0	0	0	0
Employees Cost	27,851	27,846	31,973	34,876
Other expenses	8,12,336	6,88,025	6,79,938	7,00,430
EBIDTA	7,14,987	6,68,150	7,02,578	7,30,039
Depreciation	1,67,952	2,04,957	2,07,371	2,18,322
EBIT	5,47,035	4,63,193	4,95,207	5,11,717
Interest	26,996	40,813	29,626	25,231
Other Income	76,266	1,07,782	99,162	1,04,061
Exc. / E.O. items	(92,351)	0	0	0
EBT	5,03,953	5,30,162	5,64,743	5,90,547
Tax	1,15,665	1,24,903	1,42,315	1,48,818
RPAT	3,88,289	4,05,260	4,22,428	4,41,729
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	4,46,036	4,05,260	4,22,428	4,41,729

Balance Sheet

(Rs Mn)	FY23A	FY24A	FY25E	FY26E
Sources of Funds				
Equity Capital	62,901	62,901	62,901	62,901
Minority Interest	0	0	0	0
Reserves & Surplus	25,15,557	29,96,864	32,29,199	34,72,150
Net Worth	25,78,458	30,59,765	32,92,101	35,35,052
Total Debt	1,61,018	3,51,395	1,75,697	87,849
Net Deferred Tax Liability	2,17,612	2,47,088	2,51,450	2,55,898
Total Capital Employed	33,33,998	41,41,913	42,27,037	44,11,917

Applications of Funds

Net Block	14,16,148	18,33,416	20,88,396	23,49,082
CWIP	4,63,682	4,88,943	4,43,975	4,48,414
Investments	12,59,764	14,80,434	14,84,701	14,89,011
Current Assets, Loans & Advances	5,30,777	6,57,416	5,59,417	4,90,546
Inventories	83,195	1,07,118	1,09,476	1,13,412
Receivables	1,02,503	1,14,097	1,16,609	1,20,802
Cash and Bank Balances	2,16,340	3,00,313	1,96,472	1,14,551
Loans and Advances	2,591	2,823	2,885	2,989
Other Current Assets	1,26,147	1,31,090	1,33,976	1,38,792
Less: Current Liabilities & Provisions	3,36,373	3,18,296	3,49,453	3,65,136
Payables	62,556	63,821	70,068	73,213
Other Current Liabilities	2,73,817	2,54,475	2,79,385	2,91,923
<i>sub total</i>				
Net Current Assets	1,94,404	3,39,120	2,09,965	1,25,410
Total Assets	33,33,998	41,41,913	42,27,037	44,11,917

E – Estimates

Important Ratios

Particulars	FY23A	FY24A	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	100.0	100.0	100.0	100.0
EBIDTA Margin	46.0	48.3	49.7	49.8
EBIT Margin	35.2	33.5	35.0	34.9
Tax rate	23.0	23.6	25.2	25.2
Net Profit Margin	25.0	29.3	29.9	30.1
(B) As Percentage of Net Sales (%)				
COGS	0.0	0.0	0.0	0.0
Employee	1.8	2.0	2.3	2.4
Other	52.2	49.7	48.1	47.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.0
Interest Coverage	20.3	11.3	16.7	20.3
Inventory days	20	28	28	28
Debtors days	24	30	30	30
Average Cost of Debt	16.6	15.9	11.2	19.1
Payable days	15	17	18	18
Working Capital days	46	89	54	31
FA T/O	1.1	0.8	0.7	0.6
(D) Measures of Investment				
AEPS (Rs)	35.5	32.2	33.6	35.1
CEPS (Rs)	48.8	48.5	50.1	52.5
DPS (Rs)	14.0	10.3	15.1	15.8
Dividend Payout (%)	39.5	31.8	45.0	45.0
BVPS (Rs)	205.0	243.2	261.7	281.0
RoANW (%)	15.7	14.4	13.3	12.9
RoACE (%)	15.9	11.9	10.8	10.8
RoAIC (%)	17.7	13.3	12.6	12.3
(E) Valuation Ratios				
CMP (Rs)	280	280	280	280
P/E	7.9	8.7	8.3	8.0
Mcap (Rs Mn)	35,23,736	35,23,736	35,23,736	35,23,736
MCap/ Sales	2.3	2.5	2.5	2.4
EV	34,68,413	35,72,843	35,02,962	34,97,034
EV/Sales	2.2	2.6	2.5	2.4
EV/EBITDA	4.9	5.3	5.0	4.8
P/BV	1.4	1.2	1.1	1.0
Dividend Yield (%)	5.0	3.7	5.4	5.6
(F) Growth Rate (%)				
Revenue	40.9	(11.0)	2.2	3.6
EBITDA	31.4	(6.6)	5.2	3.9
EBIT	48.3	(15.3)	6.9	3.3
PBT	22.8	5.2	6.5	4.6
APAT	45.3	(9.1)	4.2	4.6
EPS	45.3	(9.1)	4.2	4.6

E – Estimates

Cash Flow

Particulars	FY23A	FY24A	FY25E	FY26E
Profit before tax	5,03,953	5,30,162	5,64,743	5,90,547
Depreciation & w.o.	1,67,952	2,04,957	2,07,371	2,18,322
Net Interest Exp	(26,264)	(39,505)	(69,536)	(78,830)
Direct taxes paid	(1,28,448)	(1,18,682)	(1,37,954)	(1,44,369)
Change in Working Capital	85,409	24,109	47,249	27,747
Non Cash	1,88,609	52,314	0	0
(A) CF from Operating Activities	7,91,210	6,53,355	6,11,873	6,13,417
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(3,85,864)	(3,94,618)	(2,54,980)	(2,60,686)
Free Cash Flow	4,05,346	2,58,737	3,56,893	3,52,731
(Inc.)/ Dec. in Investments	(2,14,000)	(1,03,294)	(2,078)	(4,093)
Other	43,379	70,976	99,162	1,04,061
(B) CF from Investing Activities	(5,56,485)	(4,26,936)	(1,57,896)	(1,60,718)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(51,698)	(80,860)	(1,75,697)	(87,849)
Interest exp net	(6,666)	(17,037)	(29,626)	(25,231)
Dividend Paid (Incl. Tax)	(1,76,090)	(1,28,949)	(1,90,093)	(1,98,778)
Other	0	0	0	0
(C) CF from Financing	(2,34,454)	(2,26,846)	(3,95,416)	(3,11,858)
Net Change in Cash	271	(426)	58,561	1,40,841
Opening Cash balances	2,362	2,16,340	3,00,313	1,96,472
Closing Cash balances	2,16,340	3,00,313	3,58,874	3,37,313

E – Estimates

Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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