



NEUTRAL

Price	Rs1,166
Target Price	-
Investment Period	-

Stock Info

Sector	Oil & Gas
Market Cap (Rs cr)	249,360
Beta	0.8
52 WK High / Low	1,274 / 598
Avg Daily Volume	398535
Face Value (Rs)	10
BSE Sensex	16,053
Nifty	4,751

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

Shareholding Pattern (%)

Promoters	74.1
MF/Banks/Indian FIs	19.6
FII/ NRIs/ OCBs	4.5
Indian Public	1.8

Abs.	3m	1yr	3yr
Sensex (%)	5.8	77.5	24.4
ONGC (%)	6.2	79.3	47.7

Deepak Pareek

Tel: 022 – 4040 3800 Ext: 340
E-mail: deepak.pareek@angeltrade.com

Amit Vora

Tel: 022 – 4040 3800 Ext: 322
E-mail: amit.vora@angeltrade.com

Performance Highlights

- Net Crude Realisation at US \$56.4/bbl:** ONGC registered a decent set of numbers for 2QFY2010 compared to our estimates. Top-line registered de-growth of 13.2% yoy, while Bottom-line grew a marginal 5.8% yoy. The decline in Top-line to Rs15,192cr (Rs17,500cr) could be attributed to termination of sales of MRPL products and lower sales of value-added products. Crude oil sales declined to 5.55MMT (5.67MMT), while gas sales volume were flat at 5.19BCM (5.21BCM). ONGC's Gross realisations from crude oil sales stood at US \$70.5/bbl (US \$119.3/bbl). During the quarter, the company shared a Subsidy burden of Rs2,630cr. Hence, Net realisations stood at US \$56.4/bbl (US \$46.6/bbl). While Gross realisations were in line with our estimates, Net realisations exceeded our estimates on account of the lower-than-anticipated Subsidy burden during the quarter.
- EBITDA higher-than-estimated:** EBITDA for 2QFY2010 came in higher than our estimates primarily on account of the lower-than-anticipated Subsidy burden. Adjusted for the Subsidy burden, EBITDA was in line with our estimates. EBITDA during the quarter stood at Rs8,834cr (Rs8,509cr), registering a meagre 3.9% yoy growth. EBITDA Margins increased by 955bp yoy to 58.2% (48.6%) largely on account of the absence of trading sales of MRPL products and higher net crude oil realisations.
- DD&A cost lower than estimates, Other Income declines:** The Depreciation, Depletion and Amortisation cost (DD&A) increased 7.9% yoy to Rs2,356cr (Rs2,183cr), which was below our estimate of Rs3,270cr. This was on the account of lower dry well write-offs and survey expenditure. Other Income during the quarter declined 18.4% to Rs1,139cr (Rs1,397cr) on account of lower income from Bank deposits and Site restoration fund.
- PAT increases 5.8%:** Net Profit during the quarter increased 5.8% yoy to Rs5,090cr (Rs4,808cr), which was higher than our estimate of Rs4,267cr (by 19.3%). This was on account of lower-than-anticipated DD&A cost.

Key Financials (Consolidated)

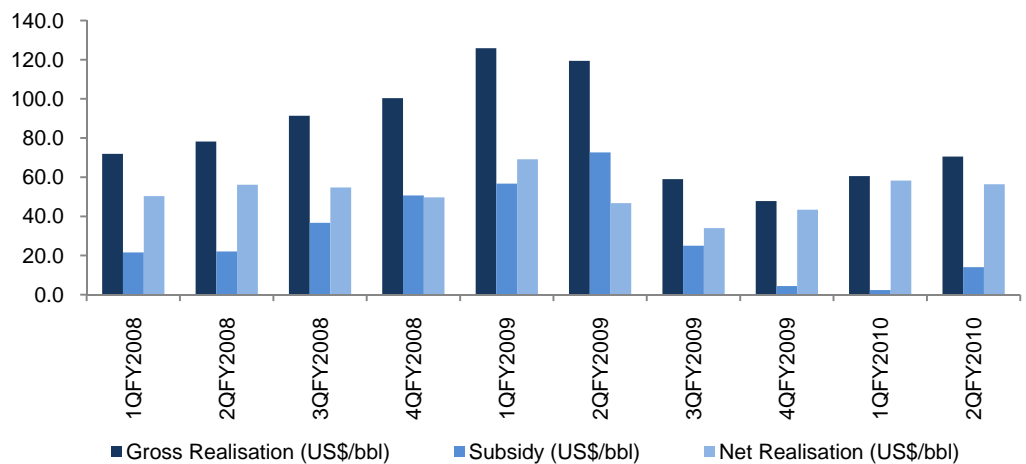
Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	96,782	104,569	104,269	107,919
% chg	17.7	8.0	(0.3)	3.5
Net Profit	19,872	19,785	21,282	22,464
% chg	11.8	(0.4)	7.6	5.6
EPS (Rs)	92.9	92.5	99.5	105.0
EBITDA Margin (%)	41.8	41.9	42.8	42.9
P/E (x)	12.4	12.5	11.6	11.0
RoE (%)	26.4	21.6	23.1	22.1
RoCE (%)	25.8	20.3	22.6	21.7
P/BV (x)	3.3	2.7	2.7	2.4
EV/ Sales (x)	2.5	2.3	2.4	2.3
EV/ EBITDA	6.0	5.4	5.5	5.4

Source: Company, Angel Research

Top-line declines on termination of sales of MRPL products: ONGC registered 13.2% yoy de-growth in Top-line during the quarter primarily on account of termination of sales of MRPL products and lower sales of value-added products. ONGC's MoU with MRPL to market the latter's products ended w.e.f March 31, 2010. ONGC had sold MRPL products worth Rs2,672cr in 2QFY2009 as against nil in the current quarter. Sales of value-added products also declined by Rs734cr yoy during the quarter. ONGC's Gross realisations from crude oil sales during 2QFY2010 stood at US \$70.5/bbl (US \$119.3/bbl). The Subsidy discount to oil marketing companies (OMCs) was at US \$14.08/bbl (US \$72.67/bbl), resulting in Net realisation of US \$56.42/bbl (US \$46.64/bbl). During the quarter, the company shared a Subsidy burden of Rs2,630cr. While Gross realisations were in line with our estimates, Net realisations surpassed our estimates on account of the lower-than-anticipated Subsidy burden during the quarter.

Despite Crude oil volumes being lower at 5.55MMT (5.67MMT) during the quarter, crude oil sales increased 8.2% yoy to Rs11,653cr (Rs10,765cr) on account of higher Net realisations. Natural gas sales saw a marginal decline of 0.4% to Rs1,994cr (Rs2,003cr). Gas sales volumes were flat at 5.19BCM (5.21BCM) during the quarter.

Exhibit 1: ONGCs Crude Realisation



Source: Company, Angel Research

EBITDA higher-than-estimated: EBITDA during the quarter stood at Rs8,834cr (Rs8,509cr), registering a meagre growth of 3.9% yoy, which was higher than our estimates primarily on account of lower-than-anticipated Subsidy burden. Adjusted for the Subsidy burden, EBITDA was in line with our estimates. EBITDA Margins increased by 955bp to 58.2% (48.6%) largely on account of absence of trading sales of MRPL products (a margin neutral business) and higher net crude oil realisations. For 2QFY2009, excluding sales of MRPL products, EBITDA Margin would have been higher at 57.4%.

Depreciation, Depletion and Amortisation (DD&A) increases, albeit at lower-than-anticipated rate: Depreciation, Depletion and Amortisation cost (DD&A) increased 7.9% yoy to Rs2,356cr (Rs2,183cr) on account of higher dry well write-offs, which increased to Rs655cr (Rs335cr). However, the same was lower-than-our estimates of Rs3,270cr on account of lower dry well write-offs and survey expenditure.

PAT increases 5.8%: Net Profit during the quarter increased 5.8% to Rs5,090cr (Rs4,808cr), which was 19.3% higher than our estimate of Rs4,267cr. This was on account of lower-than-anticipated DD&A cost. Adjusted for the same, PAT would have been in line with our estimates.

Exhibit 2: 2QFY2010 Performance (Standalone)

Y/E March (Rs cr)	2QFY2010	2QFY2009	%chg	1HFY2010	1HFY2009	%chg
Net Sales	15,192	17,500	(13.2)	30,137	37,646	(19.9)
Total operating expenditure	6,357	8,994	(29.3)	11,735	17,291	(32.1)
EBITDA	8,834	8,505	3.9	18,402	20,355	(9.6)
<i>EBITDA Margin (%)</i>	58.2	48.6		61.1	54.1	
Other Income	1,139	1,397	(18.4)	2,118	2,353	(10.0)
Depreciation	2,356	2,183	7.9	5,535	4,980	11.1
Interest	4	97	(96.4)	10	101	(90.5)
PBT	7,614	7,622	(0.1)	14,975	17,626.33	(15.0)
<i>PBT Margin (%)</i>	50.1	43.6		49.7	46.8	
Total Tax	2,525	2,813	(10.3)	5,037	6,225	(19.1)
<i>% of PBT</i>	33.2	36.9		33.6	35.3	
PAT	5,090	4,808	5.8	9,938	11,401	(12.8)
Exceptional items	-	-	0.0	-	43	0.0
Adj. PAT	5,090	4,808	5.8	9,938	11,445	(13.2)
<i>PAT Margin (%)</i>	33.5	27.5		33.0	30.4	

Source: Company, Angel Research

Exhibit 3: Segment-wise Performance (Standalone)

Y/E March (Rs cr)	2QFY2010	2QFY2009	%chg	1HFY2010	1HFY2009	%chg
In India						
Offshore E&P	11,442	12,587	(9.1)	22,774	27,151	(16.1)
Onshore E&P	3,949	5,073	(22.2)	7,796	10,798	(27.8)
Unallocated	30	31		40	39	3.2
Total revenue	15,421	17,690	(12.8)	30,610	37,988	(19.4)
EBIT						
Offshore E&P	5,534	6,565	(15.7)	10,879	15,081	(27.9)
<i>%EBIT</i>	48	52		48	56	
Onshore E&P	1,346	140	862.1	2,802	878	219.1
<i>%EBIT</i>	1	3		36	8	
Unallocated	(226)	(276)	(18.4)	(437)	(397)	10.0
Total EBIT	6,655	6,429	3.5	13,244	15,562	(14.9)
<i>%EBIT</i>	43.2	36.3		43.3	41.0	
Less: Interest payment	4	97	(96.4)	10	101	(90.5)
Less: Other unallocable exp. net of income	(963)	(1,290)	(25.4)	(1,741)	(2,166)	(19.6)
PBT before extraordinary items	7,614	7,622	(0.1)	14,975	17,626	(15.0)
Extraordinary gain	-	-		-	66	
PBT	7,614	7,622	(0.1)	14,975	17,692	(15.4)

Source: Company, Angel Research

Outlook and Valuation

ONGC reported a decent 2QFY2010 performance, driven by a yoy increase in Net realisation on account of the increase in Net crude oil realisation and lower DD&A expenditure. ONGC shared the Subsidy burden only on Auto fuels, as the government has exempted it from sharing the Cooking fuel subsidy. However, it remains to be seen whether ONGC will continue to share the Subsidy only on Auto fuels. Historically, the government has shown a tendency to fall back to 33% Subsidy-sharing from the Upstream Segment in the fourth quarter of a year. Hence, we are skeptical regards continuation of the government's current stance.

Moreover, in the recent Union Budget, the government has provided around Rs10,000cr for oil bonds, much lower than the likely Subsidy burden of Rs35,000-40,000cr on Cooking fuels. Thus, till the time there is clarity on who would share the balance Subsidy burden, we remain unexcited over the proposal. But, if the trend continues, there exists upside potential as Auto fuel retail pricing would remain closely aligned to international pricing.

We maintain our Earnings estimates assuming that Subsidy payments will be in line with historical trends. Moreover, with the recent increase in crude oil prices, under-recoveries on domestic LPG has increased from Rs125/cylinder to Rs190/cylinder. Under-recoveries on other subsidised products have however, remained unchanged. Thus, we believe that there exists high probability of the government falling back to the 33% sharing mechanism going ahead.

On the Production front, we expect production of crude and natural gas from ONGC's domestic fields to show a marginal growth, with production maintained through IOR/EOR from its ageing fields. Moreover, implementation of several schemes such as the Vasai East project, the C-series project and the Heera project are expected to maintain the company's production volumes. On the overseas front also, we expect production to be maintained.

ONGC's APM gas price hike is long overdue. We believe that the issue is likely to be taken up by the government over the next three to four months, and that there could be an adherence to the Tariff Commission recommendations, which would in turn result in an increase in APM gas price by 20% (adjusted for inflation). However, we are still not building this in our estimates pending further clarity. The move could increase ONGC's consolidated EPS by around Rs4 per share.

Overall, Policy action would likely drive the stock price going ahead. Moreover, we believe that average annual Net realisations for ONGC would remain range bound at US \$52-58/bbl levels, which is fully discounted in the current stock price. **We remain Neutral on the stock.**


Research Team: Tel: 4040 3800
E-mail: research@angeltrade.com
Website: www.angeltrade.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Angel Broking, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Angel Broking and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Angel Broking Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Broking Limited and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Sebi Registration No : INB 010996539

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5% to 5%)
---------------------------	--	--	----------------------------