Q4FY12 Result Update

June 12, 2012

ONGC has recently declared its Q4FY12 results and we present an update on the same.

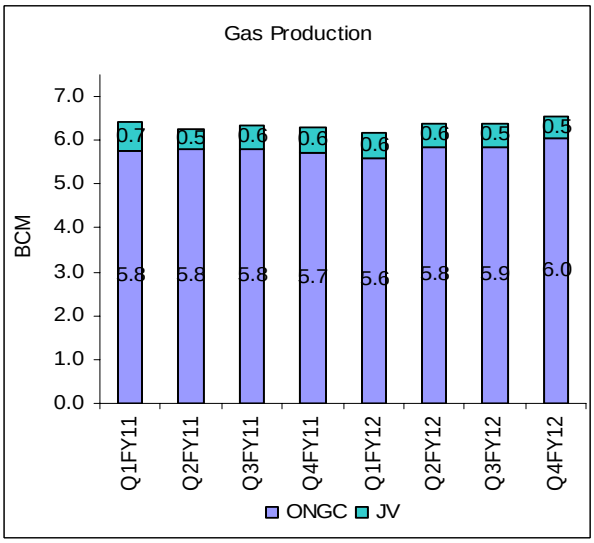
Q4 FY12 Results:

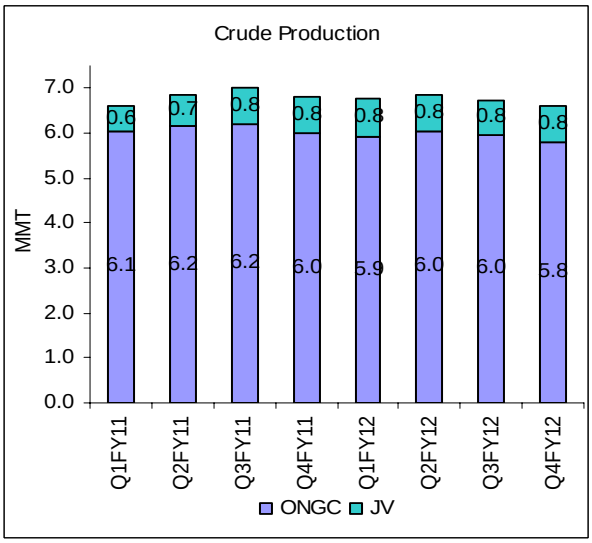
Particulars (Rs Mn)	Q4FY12	Q4FY11	% Y-o-Y	Q3FY12	% Q-o-Q	FY12	FY11	% Y-o-Y
Net Sales	188,192.9	153,961.9	22.2	181,238.4	3.8	757,584.1	658,417.9	15.1
Other Operating Income	5,206.5	3,466.9	50.2	870.4	498.2	7,579.8	24,939.2	(69.6)
Other Income	9,929.6	9,506.0	4.5	12,644.2	(21.5)	44,790.3	34,097.9	31.4
Total Income	203,329.0	166,934.8	21.8	194,753.0	4.4	809,954.2	717,455.0	12.9
TOTAL EXPENDITURE	113,199.8	106,157.8	6.6	97,767.7	15.8	399,620.1	364,255.7	9.7
PBIDT (Including OI)	90,129.2	60,777.0	48.3	96,985.3	(7.1)	410,334.1	353,199.3	16.2
PBIDT (Excluding OI)	80,199.6	51,271.0	56.4	84,341.1	(4.9)	365,543.8	319,101.4	14.6
Interest	224.3	160.0	40.2	18.6	1,105.9	348.3	251.1	38.7
PBDT	89,904.9	60,617.0	48.3	96,966.7	(7.3)	409,985.8	352,948.2	16.2
Depreciation	13,492.5	23,083.4	(41.5)	22,220.4	(39.3)	74,965.7	76,783.8	(2.4)
Exceptional Item	15.3	-		(31,420.8)	(100.0)	(31,405.5)	-	-
PBT	76,397.1	37,533.6	103.5	106,167.1	(28.0)	366,425.6	276,164.4	32.7
Tax	16,200	5,800.0	179.3	35,000.0	(53.7)	108,950.0	81,200.0	34.2
Fringe Benefit Tax	0	(80.2)	(100.0)	(54.1)	(100.0)	(54.1)	(80.2)	(32.5)
Deferred Tax	8,592.8	3,905.2	120.0	3,811.8	125.4	12,474.7	10,321.8	20.9
Earlier Yrs written off	-4,839.5			(4.7)	102,868.1	(6,174.2)	(4,517.9)	36.7
Reported Profit After Tax	56,443.8	27,908.6	102.2	67,414.1	(16.3)	251,229.2	189,240.7	32.8
OPM (%)	41.5%	32.6%		46.3%		47.8%	46.7%	
NPM (%)	30.0%	18.1%		37.2%		33.2%	28.7%	
Production Details								
Crude Oil (MMT)								
ONGC	5.78	6.01	-3.83	5.96	-3.02	23.71	24.42	-2.91
JV	0.81	0.79	2.53	0.78	3.85	3.21	2.86	12.24
Total	6.59	6.80	-3.09	6.74	-2.23	26.92	27.28	-1.32
Gas (BCM)								
ONGC	6.03	5.73	5.24	5.85	3.08	23.32	23.09	1.00
JV	0.53	0.58	-8.62	0.55	-3.64	2.19	2.23	-1.79
Total	6.56	6.31	3.96	6.40	2.50	25.51	25.33	0.75

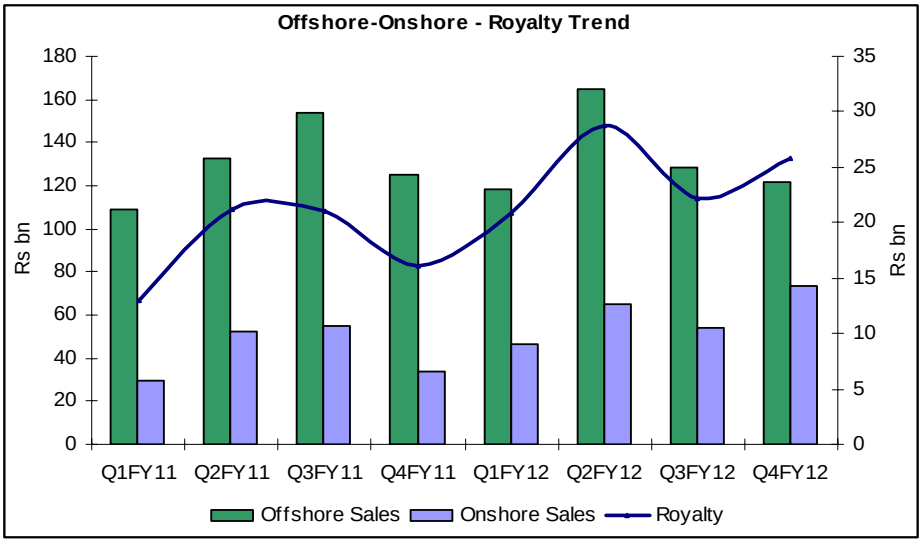
Q4 FY12 Standalone results review:

- The net sales for Q4FY12 at Rs 188.2 bn were up 22.2% on a Y-o-Y basis while they were marginally up by 3.8% on a Q-o-Q basis. The gross realizations for the quarter stand at USD 121.64 per bbl while that for FY12 are at USD 117.4 per bbl. The rise in the top line is on the back of a rise in the net realization to USD 44.3 per bbl as against USD 38.7 / bbl as of Q4FY11. The net realizations were marginally down from a level of USD 45 per bbl as of Q3FY12. The net realizations for FY12 stand at USD 54.71 per bbl. The company has witnessed the highest ever subsidy discount for the quarter at USD 77.3 per bbl. For the quarter the share of subsidies by ONGC was Rs.14, 170 cr. For FY12 it was Rs.44, 465 cr vs Rs.24, 892 cr in FY11.

- The total crude production for the quarter was down 3.09% Y-o-Y to 6.59 MMT for the quarter. Of this the share of production from the JV fields stood at 0.81 MMT which was up 2.5% Y-o-Y. ONGC's crude production was down 3.8% Y-o-Y as well to 5.8 MMT. The gas production for the quarter was up 3.9% Y-o-Y to 6.56 BCM for the quarter, primarily due to a 5.2% (Y-o-Y) rise in ONGC's production of gas to 6.03 BCM. The share of production from the JVs however was down 8.6% to 0.53 BCM. For FY12 the total crude production was down 1.3% to 26.92 MMT as against 27.28 MMT as of FY11. The share of crude production from the JV fields at 3.2 MMT was up 12.2%, while ONGC's crude production was down 2.9% to 23.7 MMT. The following charts depict the trend in the crude and gas production for the past 8 quarters:







- The royalty for the quarter stood at Rs 25.74 bn as against Rs 16.17 bn as of Q4FY11 and as against Rs 22.26 bn as of Q3FY12.

- For FY12 the INR / USD rate stood at Rs 47.95 per $ as against Rs 45.58 per $ in FY11. Therefore post the discount the crude oil prices stand at Rs 2624 per bbl as against Rs 2451 per bbl as of FY11. The INR / USD rate for Q4FY12 stood at Rs 50.29 per $ which resulted in the post discount crude oil prices of Rs 2229 per bbl.

- The revenues for FY12 exclude Rs 27.89 bn as profit petroleum as against Rs 15.34 bn in FY11. Going ahead with the ramp up in the production from the Rajasthan block, the share of profit petroleum is expected to rise for FY13 onwards.

- The other operating income for the quarter is up 50.2% to Rs 5.2 bn as against Rs 3.4 bn as of Q4FY11. One of the reasons for the other income to rise is the higher interest income from site restoration fund. The other operating income for FY12 at Rs 7.5 bn is down from a level of Rs 24.9 bn for FY11.

- The operating margins for the quarter at 41.5% are up from a level of 32.6% as of Q4 FY11. EBITDA (excluding other income) for the quarter at Rs 80.19 bn was up from a level of Rs 51.27 bn as of Q4 FY11. The employee cost (as a % of sales) fell by ~ 100 bps for the quarter on a Y-o-Y basis. For FY12 the operating margins were up 110 bps to 47.8% primarily due to a drop in the production, transportation & Selling expenses.

- ONGC's DD&A expenses in Q4FY12 stood at INR49.1b up 2% YoY and 8% QoQ. There was a sharp increase in dry wells write-off at INR29.8b (+57% YoY and +45% QoQ) on account of deepwater wells in Andaman and Mahanadi. This was offset by lower depletion at INR13.1b (-16% YoY and -28% QoQ) due to reduction in liability for abandonment cost helped by lower rig rate

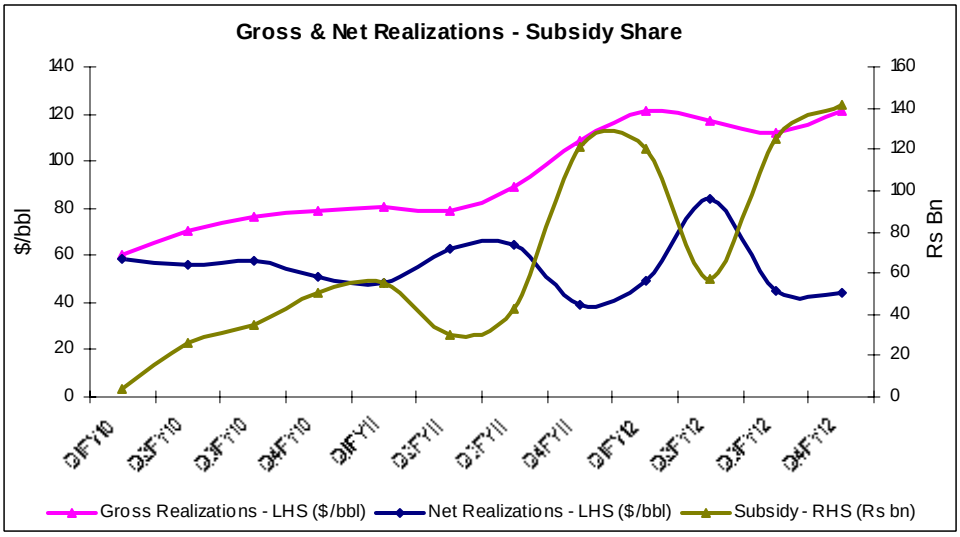
assumption. For FY12 the total DD&A cost was up to Rs 168.39 bn from a level of Rs 159.43 bn as of FY11 while the depreciation charge was down to Rs 14.16 bn from a level of Rs 21.05 bn as of FY11.

- The bottom line for the quarter at Rs 56.4 bn is up from a level of Rs 27.98 bn as of Q4FY11. The depreciation charge for the quarter, which fell by Rs 9.5 bn, resulted in an improvement in the PAT margins. The PAT for FY12 at Rs 251.2 bn was up from a level of Rs 189.2 bn as of FY11. The net margins for FY12 stand at 33.2% as against 28.7% for FY11.

Key Developments:

- Rise in the share of subsidy for Q4 FY12:

  The share of contribution from up stream players was raised by the regulator to 39.7% of the gross under-recoveries as at the end of FY12. Among upstream, ONGC's share slid down to 78.3% in Q4 against 82.1% in Q3 (normally above 80%)This inflated the share of subsidy amount for Q4 FY12 to Rs 142 bn. Therefore the net crude realizations of ONGC fell to USD ~$44.3 per barrel for Q4FY12. This translated into a 63.5% discount from gross realizations of around USD121.6 per barrel for the quarter. ONGC's share in the subsidy amongst the PSU upstream players stood at ~80.8%. The following charts depict the trend in the gross and net realizations and subsidy burden borne by ONGC:



- Production from mature field declining at a faster rate:

  ONGC has clearly indicated that production from its mature fields is declining at a faster rate of 8%-9% as against the earlier rate of 6%-7%. While ONGC operates 110 fields, it derives 80% of its production comes from 15 most mature fields. The Mumbai High field, which contributes substantially to the production of the company, is 31 years old while the Ankleshwar field in Gujarat too is more than 50 years old.

  Production increase from the marginal fields and redevelopment projects could restrict the downfall in the production from the maturing fields thus resulting in a net decline in the range of 1%-2%. ONGC has also implemented certain IOR/EOR projects so as to improve the production from the maturing fields. The company has already completed 16 IOR / EOR projects during FY12 while 6 other projects are at various stages of implementation. The cumulative outflow for the said projects is at Rs 284 bn, which has resulted in a cumulative incremental gain of ~ 72 MMT upto FY12.

- Ambitious 2030 plan:

  ONGC has planned an ambitious expansion program to be completed by 2030. The key aspects of the plan include the following:

  - 2 fold production growth from the E&P activities.
  - 3 fold growth in revenue and EBITDA
  - 4 fold growth in the Market Cap of the company
  - 5 shaping moves to be launched
  - 6 fold growth in the international E&P production.

  Some of key aspects of the program include achieving a growth in the international E&P activities to secure 60 mmtoe / year by 2030, unlocking of 450+ mmtoe of yet-to-find domestic reserves, acceleration of 300-400 mmtoe of re-developments and build non-E&P business to 30% of group revenues. The 2030 plan could substantially improve the overall performance of the company, there is substantial time left for the initiatives to fructify though it highlights the ambitious vision of the management.

- Other Developments:
  - ONGC has guided for FY13 domestic production of oil at 27.54mmt and gas at 25.73bcm.

- ONGC registered a highest ever reserve accretion of 84.13 mmtoe. FY12 Reserve replacement ratio stood at 1.79 as against 1.76 in FY11.
- ONGC made 3 discoveries in Q4FY12 and 23 discoveries in FY12. Of this, 15 discoveries were new prospects while the balances 8 were new pools. Of the 15 new prospects 9 were offshore and 6 were onshore and of the 8 new pool discoveries, 1 was offshore and 7 were onshore.
- ONGC has started production from the shallow GS 15 field and is expected to start production from 1st well of G1 field by end of the year. These two fields will add 1.8-2.0 mmscmd to production.
- C-Series: Phase 3 will be complete in 2014 and will add 3 mmscmd to production. Phase 2 (renamed as Daman offshore) will further add 3 mmscmd. All 3 phases together will add 9-10 mmscmd.
- KG-DWN-98/2: Appraisal wells to be drilled in FY13 and likely development by FY17, leading to production of 30-35 mmscmd.
- The political uncertainty in Sudan will continue to impact the crude production in FY13 for OVL.

FY12 OVL results review:

Particulars (Rs bn)	FY12	FY11	% Y-o-Y
Sales	223.5	184.1	21.4
Other Income	2.9	2.6	11.5
Total Income	**226.4**	**186.7**	21.2
Operating Expense	131.5	91.8	43.2
Financing Cost	3.0	3.5	-16.1
Adjustments	(0.4)	(0.3)	46.4
Variation in Stock	(0.6)	(0.1)	425.0
Total Expenses	133.4	95.0	40.5
PBIDT (Including OI)	93.0	91.8	1.3
PBIDT (Excluding OI)	90.1	89.2	1.0
DDA	41.9	42.7	-1.9
Prior Period Adjustments	(0.1)	(0.4)	-80.0
PBT	51.2	49.4	3.5
Provision for Taxation	23.6	22.1	7.2
PAT	27.5	27.4	0.6
Minority Interest	0.3	0.5	-30.4
PAT and Minority Interest	27.2	26.9	1.1
OPM (%)	40.3%	48.4%	
NPM (%)	12.2%	14.6%	
Production Details:			
Oil (MMT)	6.21	6.76	-8.0
GAS (BCM)	2.54	2.69	-5.7
Total	**8.75**	**9.45**	**-7.4**

FY12 OVL results review:

- OVL's net sales for FY12 stands at Rs 223.5 bn were up 21.4% as against Rs 184.1 bn as if FY11. The total crude oil production declined for FY12 to 6.21 MMT down by 8% while the total gas production too declined 5.7% to 2.54 BCM. The total crude sales were up 21.6% to Rs 211.6 bn as against Rs 174.09 bn as of FY11.
- The operating margins for FY12 declined 870 bps to 40.3% as against 48.4% in FY11. The Operating expenses for FY12 too increased (as a % of sales) by 900 bps, which pushed down the operating margins. The rise in the operating expenses could be attributable to the rise in the provisions and write off amount to Rs 27.93 bn for FY12 as against Rs 3.45 bn for FY11. The company did an impairment provisioning amounting to Rs 19.5 bn for its subsidiary Jarpeno Ltd (include the assets of Imperial energy Russia) due to ongoing unrest in Syria and Sudan. Impairment for Imperial was driven by lower than expected performance of the fields and also impacted by adverse taxation in Russia. The operating cost remained flat (as a % of sales) at 17% while the statutory levies at Rs 65.67 bn were down (as a % of sales) to 29.4% from a level of 30.9% as of FY11.
- The DDA cost for FY12 declined 1.9% to Rs 41.87 bn. The fall in the DDA cost could be attributable to the drop in the depreciation and depletion cost by 9.8% and 8.6% respectively. The amortization cost rose 8.7% for FY12 to Rs 16.9 bn. The drop in the depreciation and depletion cost fully offset the rise in the amortization cost.

- The profit after tax and minority interest for FY12 was up marginally by 1.1% at Rs 27.2 bn. The net margins for FY12 were down 240 bps to 12.2%.

FY12 MRPL results:

Particulars (Rs bn)	FY12	FY11	% Y-o-Y
Net Sales	537.6	388.8	38.3
Other Income	3.5	2.2	63.1
Total Income	541.2	391.0	38.4
Operating & Other Expense	4.2	4.8	-11.7
Raw Material Consumed	512.4	372.2	37.7
Variation in Stock	(1.5)	(8.2)	-81.6
Exchange Loss / (Gain)	6.5	(0.2)	-3700.0
Total Expenses	521.6	368.6	41.5
PBIDT (Including OI)	19.6	22.3	-12.2
PBIDT (Excluding OI)	16.1	20.2	-20.3
Finance Cost	2.1	1.1	97.1
DDA	4.3	3.9	11.0
Prior Period Adjustments	-	-	
PBT	13.2	17.4	-24.0
Provision for Taxation	4.1	5.6	-26.4
PAT	9.1	11.8	-22.9
OPM (%)	3.0%	5.2%	
NPM (%)	1.7%	3.0%	
Production Details:			
Thruput (MMT)	12.82	12.64	1.4

FY12 MRPL results review:

- MRPL's net sales for FY12 stand at Rs 537.6 bn up 38.3% as against Rs 388.8 bn as of FY11. The total production inched up marginally by 1.4% for FY12 to 12.82 MMT. The expansion of refinery facility at MRPL was completed and the new capacities commenced production. Post the expansion the refining capacity stands at ~15 MMT and the full impact of the same could be visible in FY13.
- The operating margins for FY12 were down to 3% from a level of 5.2% as of FY11. The input cost which is a major component of the cost is almost flat (as a % of sales) at 95.3% as against 95.7% as of FY11. MRPL registered an exchange loss to the tune of Rs 6.5 bn for FY 12 as against a marginal gain of Rs 0.2 bn in FY11, which dented the operating margins of the company for FY12.
- The finance cost for FY12 almost doubled to Rs 2.1 bn from a level of Rs 1.1 bn as of FY11 while the depreciation charge increased by a modest 11% to Rs 4.3 bn. The tax provisioning for FY12 stood at 31.2% of the PBT down from 32.2% as of FY11. Therefore the bottom line for FY12 was down to 9.1 bn from a level of Rs 11.8 bn as of FY11. The net margins too were down to 1.7% from a level of 3% as of FY11.

Conclusion:

ONGC commands a huge share of ~74% of the domestic crude production. ONGC's robust infrastructure and strong capabilities in the field of exploration, production, transportation and processing have enabled it to become a leader in the oil and gas space in the country. This is also justified from the fact that the company has been awarded the lion's share of explorations acreage in the NELP rounds by the government of India. In the recent NELP rounds the company was awarded around 50.7% of the acreage available through the bidding rounds. ONGC has one of the largest proved reserves in India as compared to any other oil and gas company. A strong and a wide reserves base provide the company an abundant and stable long-term source of hydrocarbons for crude oil and natural gas production.

The revenue for the quarter at Rs 188.2 bn is up 22.2% on a Y-o-Y basis. The FY12 revenues were up 15.1% to Rs 757 bn. The rise in the top line is on the back of a rise in the net realization to USD 44.3 per bbl as against USD 38.7 / bbl for Q4FY11. The net realizations were marginally down from a level of USD 45 per bbl as of Q3FY12. The net realizations for FY12 stand at USD 54.71 per bbl. The company has paid out the highest ever subsidy discount for the quarter at USD 77.23 per bbl.

ONGC is exposed to the subsidy sharing mechanism and hence incurs a substantial cash outflow on account of the same. At the end of FY12, the subsidy burden stood at ~39.7% (share of subsidy to be borne by the upstream companies), which is up from a level of ~38% as of 9MFY12. The amount of subsidy burden borne by the company for FY12 stands at Rs 444.6 bn, which is highest ever subsidy paid by the company. The share of ONGC in the upstream subsidies stands at ~80%.

Another major aspect, which could inflate the concerns of the company, is the political unrest in the Syria and Sudan, which account for 25% of the OVL's production. The company is expecting a drop in the production from both these nations due to the ongoing political unrest.

However the positives for the company could be the normalization of the subsidy burden and the likely reserve accretion from the large exploration and production accerage with the company. ONGC has guided for crude production of 27.45 MMT (including JV share of 3.7 MMT) and natural gas production of 25.73 BCM (including JV share) for FY13. In addition to this the company has also indicated that natural gas production is set to increase by 4 mmscmd by 2013-14. This provides comfort on the production side at least for the near future.

We are maintaining our FY13E estimates for the time being.

We had issued a Result update on ONGC dated 14th February 2012 at a CMP of Rs 280.8. In our report we had stated that the stock price could remain in the range of Rs 253-308 for the next three months. Post that the stock price touched a high of Rs 304.2 on 22nd February 2012 and a low of Rs 240.1on 23rd May 2012.

We think that the stock could trade in the Rs.235-Rs.290 band (6.5-8x FY13E EPS) for the next quarter. Investors could buy the stock closer to the lower end of the band for a target of the higher end of the band.

Consolidated Results (Annual):

Income Statement - consolidated (Rs mn)	FY09	FY10	FY11	FY12
Net Sales	1,045,884	1,017,546	1,175,206	1,463,706
Total Income	1,096,605	1,070,254	1,238,641	1521325.4
Total Operating Expenditure	628,879	573,630	777,624	991,230
EBITDA (including OI)	467,726	496,624	461,017	530,095
Interest	2,385	5,022	4,377	4,349
Depreciation & Non cash charges	154,304	187,188	113,507	129,116
Exceptional Item	(658)	-	-	(31,406)
PBT	311,695	304,414	343,133	428,035
Taxation-	110,093	107,138	114,883	143,746
Net Profit	201,602	197,276	228,250	284,289
Add Share of profit in associate	99	78	30	(11)
Less: profit / loss- minority interest	3,747	3,319	3,720	2,842
Adjusted Net Profit	197,954	194,035	224,559	281,436

Quick Estimates – (Consolidated)

Particulars (Rs Mn)	FY11	FY12E	FY12A	FY13E
Net Sales	1,175,206	1,383,154	1,463,706	1,528,385
EBITDA	423,670	564,327	520,733	637,337
OPM (%)	36.1%	40.8%	35.6%	41.7%
PAT	224,559	274,170	281,436	309,441
NPM (%)	19.1%	19.8%	19.2%	20.2%
EPS	26.25	32.05	32.90	36.17
Equity Capital	42,777.7	42,777.7	42,777.7	42,777.7

(OE=Original estimates, RE=Revised Estimates)

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