

Oil & Natural Gas Corporation Ltd

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
171	215	25.7%	192 / 128	2147454

Key Highlights:

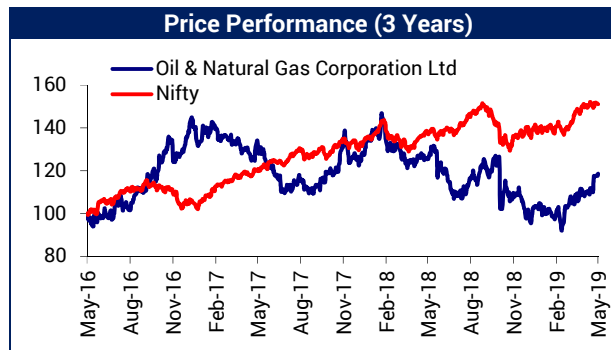
- We expect the government to exempt upstream PSUs from sharing subsidies on LPG, finding comfort from the recent increase in budget provision for Direct Benefit Transfer of LPG subsidy to Rs.295 bn for FY2020, which is adequate up to Dated Brent crude price of US\$65-70/bbl on a recurring basis.
- We assume the government will manage entire burden related to DBT of LPG subsidies going forward.
- Recent adequate increase in FY2020 budget provision for LPG subsidies should allay investor concerns on subsidy sharing for upstream PSUs, which we believe will be certain by 4QFY19 results.
- Gas production has grown well in the recent months.
- OVL production volumes increased in 3QFY19.
- We expect ONGC's net oil realization to remain steady over the next few years.
- Domestic gas price to increase further in 1HFY20.
- We raise EPS estimates, excluding HPCL, to Rs.24.3 (+7%) in FY2019E and Rs.25.6 (+3%) in FY2020E, factoring in (1) modestly higher gas volumes, (2) higher other income and (3) other minor changes.
- We assume stable crude realization, higher gas price and modest increase in production volumes.
- Our fair value based on 9X FY2020E EPS plus value of investments increases to Rs.215 from Rs.210.
- ONGC's earnings are highly sensitive to oil and gas prices and exchange rate assumptions.

Financials (Rs mn)*	FY18	FY19E	FY20E
Sales	1,557,670	2,080,353	2,114,016
Growth (%)	11.7	33.6	1.6
EBITDA	573,191	769,646	814,668
EBITDA margin (%)	36.8	37.0	38.5
PBT	330,634	487,703	515,611
Net profit	223,467	312,169	328,638
Adjusted EPS (Rs)	17.4	24.3	25.6
Growth (%)	3.0	39.7	5.3
P/E (x)	9.8	7.0	6.7
ROAE (%)	9.0	11.8	11.6
ROACE (%)	9.3	12.0	11.6
Free Cash Flow	84,838	263,106	214,478

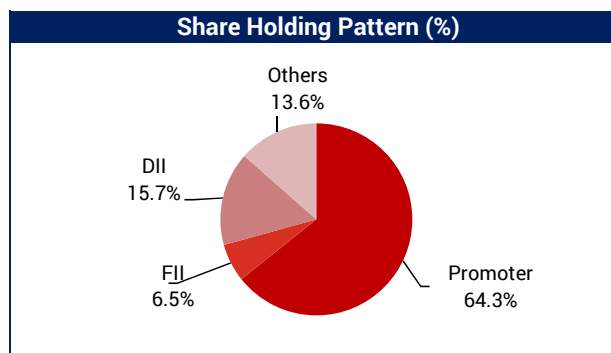
Source: Kotak Institutional Equities; *Consolidated

Financials (Rs mn)*	9M-FY18	9M-FY19	% Chg
Revenues	610,343	828,961	36
EBITDA	328,746	470,916	43
EBITDA Margin (%)	53.9%	56.8%	
PAT	140,301	226,712	62
PAT Margin (%)	23.0%	27.3%	
EPS (Rs)	10.9	17.7	62

Source: Kotak Institutional Equities; *Standalone



Source: Bloomberg



Source: Bloomberg

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
- SELL** – We expect the stock to deliver < -5% returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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