

BSE SENSEX
38,133

S&P CNX
11,445

CMP: INR160

TP: INR196(+22%)

Buy



Stock Info

Bloomberg	ONGC IN
Equity Shares (m)	12,833
M.Cap.(INRb)/(USDb)	2016 / 29.3
52-Week Range (INR)	192 / 128
1, 6, 12 Rel. Per (%)	2/-14/-26
12M Avg Val (INR M)	1453
Free float (%)	34.4

Financials Snapshot (INR b)

Y/E March	2019E	2020E	2021E
Sales	4,603.5	4,983.7	5,094.6
EBITDA	848.9	910.9	921.3
Adj. PAT	350.0	377.0	379.5
Adj. EPS	27.3	29.4	29.6
EPS Gr.	35.1	7.7	0.7
BV/Sh.	175.5	193.3	211.1
RoE (%)	16.3	15.9	14.6
RoCE (%)	11.9	12.7	12.1
Payout (%)	39.4	39.5	39.9

Valuation

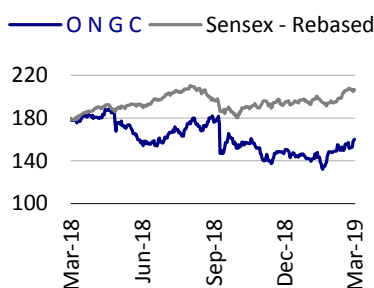
P/E (x)	5.7	5.3	5.3
P/BV (x)	0.9	0.8	0.7
EV/EBITDA	3.2	2.9	2.7
D. Yield (%)	5.9	6.4	6.5

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	65.6	67.5	67.7
DII	14.8	13.3	13.3
FII	5.9	5.8	5.2
Others	13.7	13.4	13.8

FII Includes depository receipts

Stock Performance (1-year)



Takeaways from OPaL's Dahej Plant Visit

About OPaL

- Incorporated in 2006, ONGC Petro additions Limited (OPaL) is a joint venture (JV) between ONGC (promoter – 49.36%), GAIL (co-promoter – 49.21%) and GSPC (co-promoter – 1.43%).
- The company has set up a 1.9mmtpa (1.1mmtpa ethylene, 0.4mmtpa propylene and rest is chemicals) petrochemical complex in Dahej, Gujarat.
- The complex was commissioned in Mar'17 and built with a total capex of INR308b (including interest cost of ~INR90b).
- The plants are running at ~90% utilization rates in an integrated fashion.
- EBITDA margin for the company stands at ~18-20%, with higher domestic realization.
- OPaL expects to achieve EBITDA of ~INR15b in FY19, ~INR25b in FY20 (with full utilization), and ~INR35b after (a) the completion of the Hazira-Dahej Naphtha pipeline, (b) the exit from SEZ and (c) the completion of other debottlenecking by FY21.

OPaL's kickoff

- OPaL was created with an intention of producing value products using ONGC's naphtha from Hazira, and ethane, propane and butane from ONGC's extraction plant at Dahej.
- Dahej complex has a total of eight furnaces, with flexibility of changing feedstock inputs, base design for 60% naphtha and 40% gases. This gives the company an advantage of switching between gas and naphtha during periods of high gas prices (in winter), and vice versa.
- Total gas consumption stands at ~5.3mmscmd, with 1.3mmscmd of LNG used purely for power generation.
- Naphtha is majorly sourced from ONGC, while a small amount is also sourced from BPCL/others. Ethane is majorly sourced from ONGC's extraction plant, and a small quantity (less than 10%) from RIL.
- The company can boost its utilization up to ~120%, with certain debottlenecking and process improvement.

OPaL's positioning

- OPaL commands ~13% of the domestic market share, with ~32 domestic channel partners.
- The products are exported to 20+ countries. Around two thirds of exports are to China with the help of ~13 global partners.
- Chemicals form the majority of exports, with py-gas (via Hazira) and benzene (Pipavav) exports at 100% each and butadiene (Kandla) exports at 60%.

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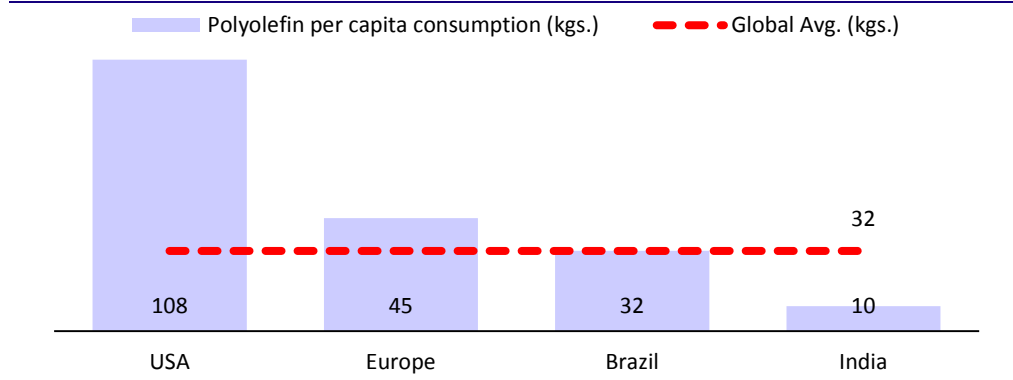
India's polymer story

- Polyolefin demand in India stands at ~13.05mmtpa, which is likely to grow at ~11-12% annually (~1.5x GDP).
- India imports around one third (4.2mmtpa) of total demand for polyolefin.
- Besides, per capita consumption of polymers in India stands at just ~10kg v/s global average of ~32kg.
- Despite the huge domestic production gap, only HMEL's (HPCL-Mittal Energy Ltd) Bhatinda Petrochemical Project is expected to come online by 2022-23.

OPaL's opportunities

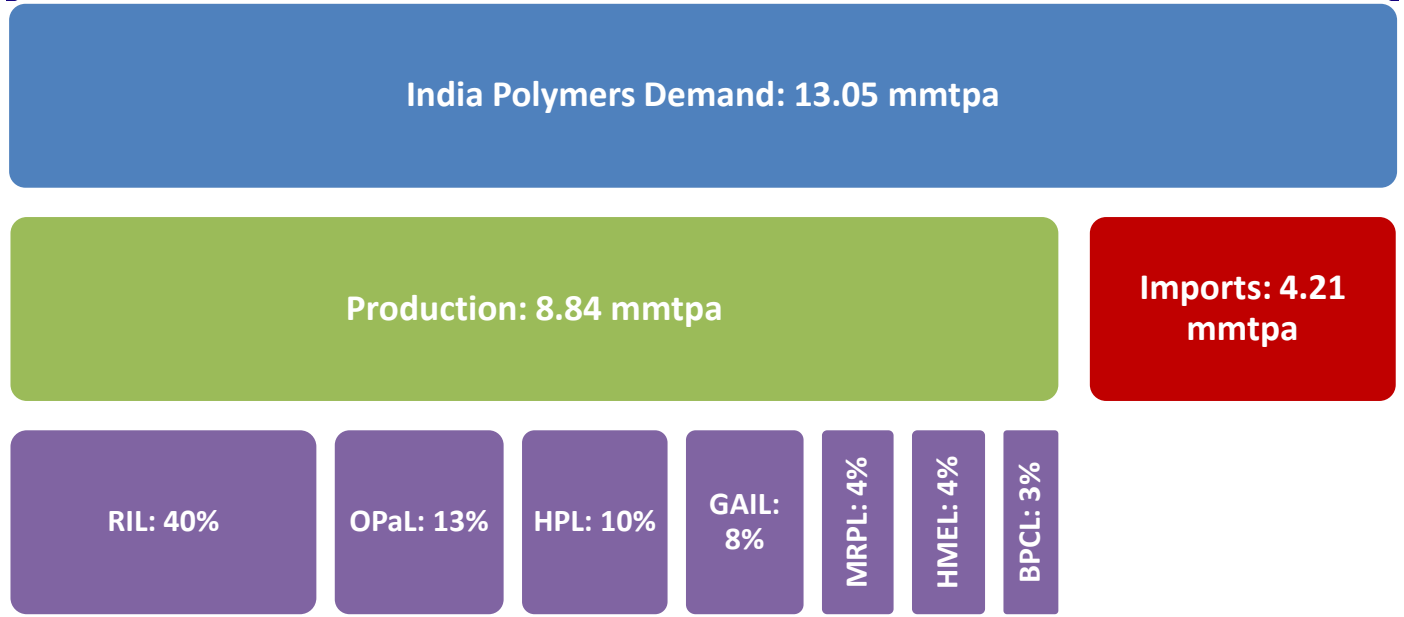
- OPaL is in advanced talks for a strategic sale by converting its compulsory convertible debentures (CCDs), post which ONGC's stake in the company would be in the range of 35-50% – it would still remain as the largest shareholder.
- The company has already applied to the Indian government to move it out of SEZ, which will help it save ~8.25% of custom duty on domestic sale of polymer products.
- OPaL plans to spend INR1,300m toward the C4 hydrogenation unit and ~INR2,000-3,000m toward the Toluene separation plant.
- Projects like MMA/PBR/SBR could come up in future, as > 50% of the current 5 sq.km. petrochemical complex at Dahej could be used for expansion.
- Pipeline to carry naphtha from Hazira to OPaL Dahej is expected to be completed by 1QFY20, adding ~INR3b to EBIDTA.
- The company is in process of converting its INR loans to USD, as it can provide a natural hedge against its exports (international receivables), resulting in saving of ~INR2b.

Exhibit 1: India's polyolefin per capita consumption much lower than global peers



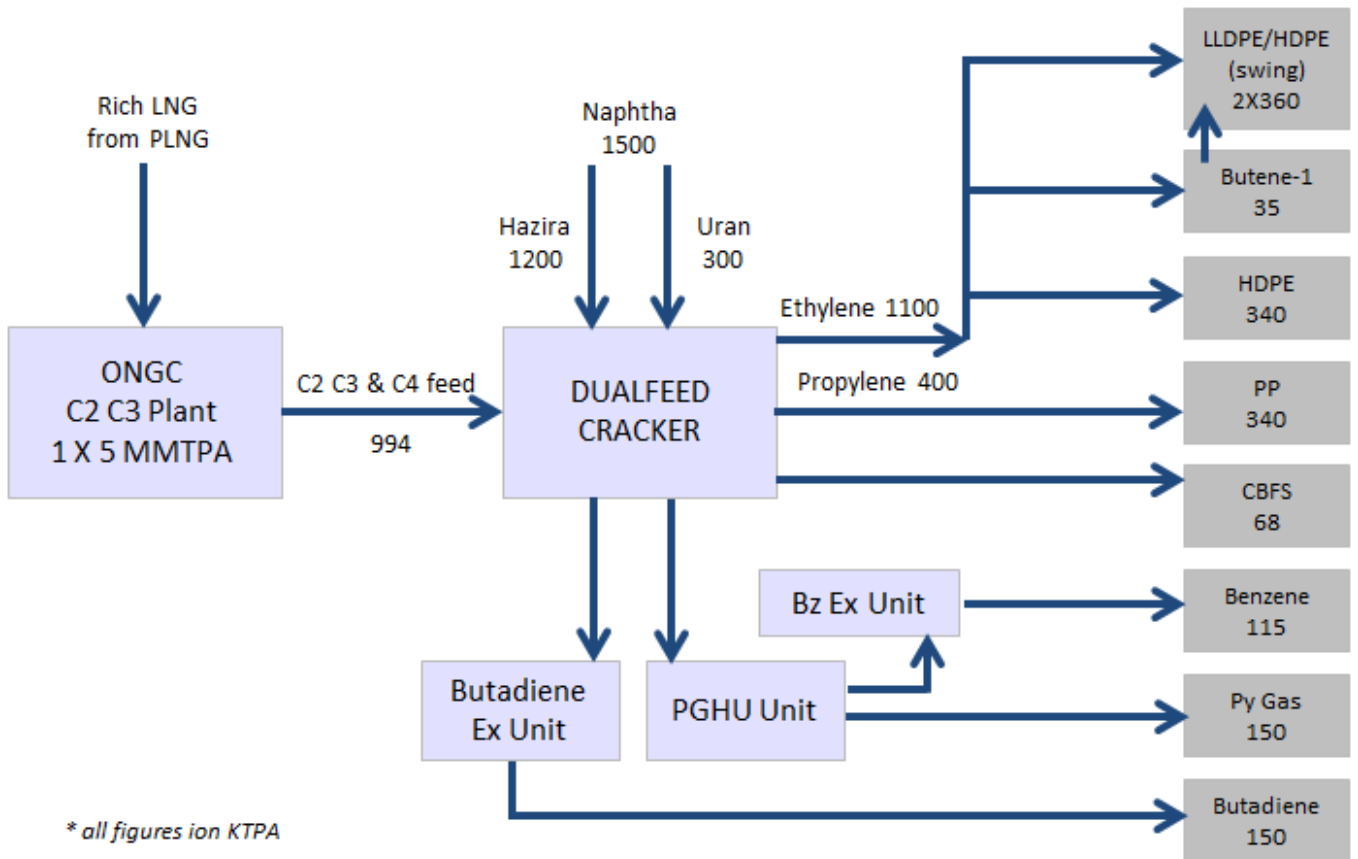
Source: MOFSL, Company

Exhibit 2: India's polymer imports at around one third of total demand



Source: Company, MOFSL

Exhibit 3: OPaL's process schematic and details

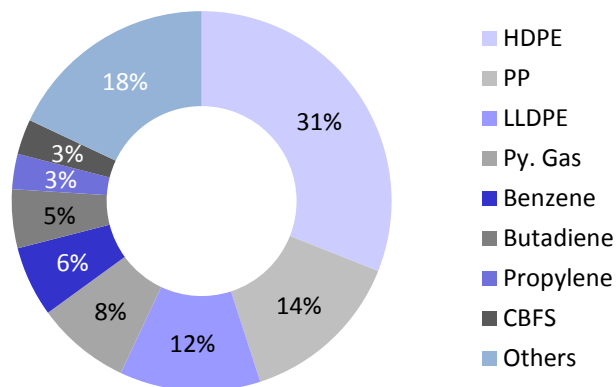


Source: Company, MOFSL

OPaL: Story in charts

Exhibit 4: HDPE and LLDPE constitute ~43% of product mix due to OPaL's PE swing unit

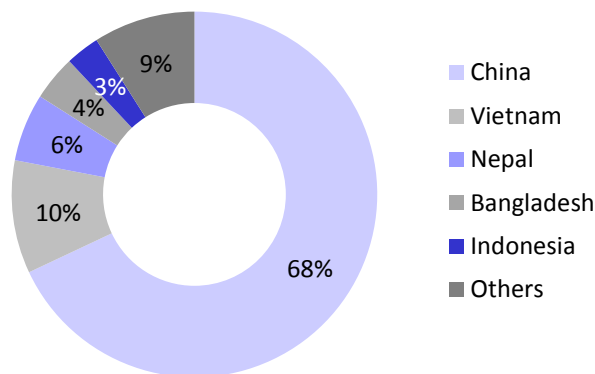
Product Slate (2,494 KTPA)



Source: Company, MOFSL

Exhibit 5: OPaL exports around two thirds of its polymers to China

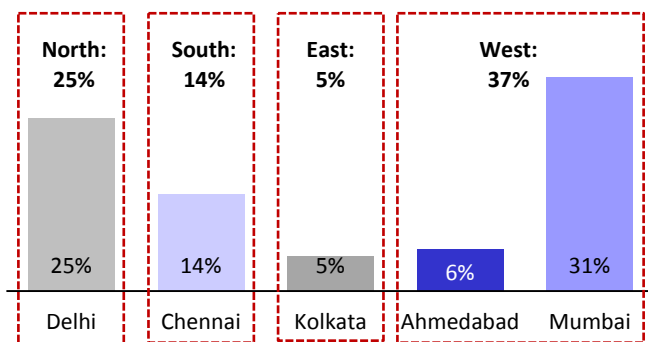
Polymers Exports (FY19YTD)



Source: Company, MOFSL

Exhibit 6: OPaL enjoys strong sales in western and northern India due to its strategic positioning in Dahej

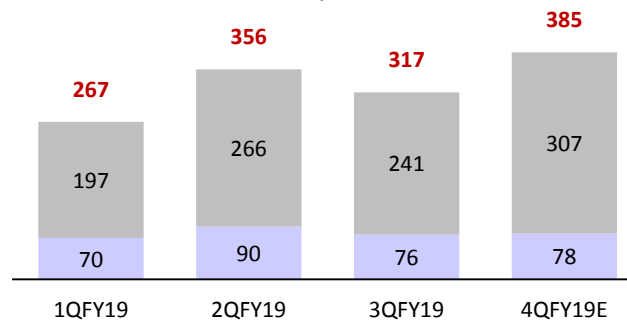
OPaL Domestic Sales



Source: Company, MOFSL

Exhibit 7: OPaL's polymer sales expected to be ~INR100b in FY19

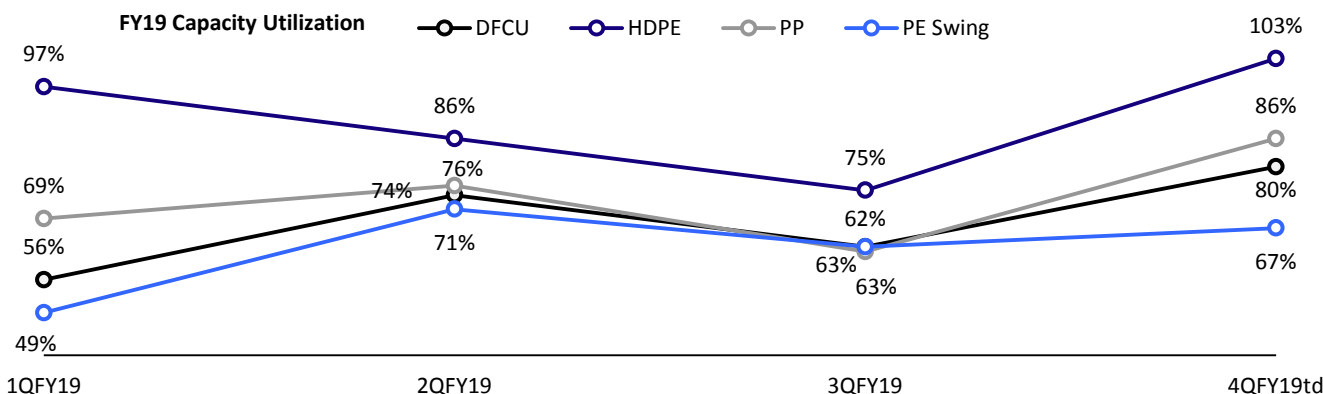
INR m Chemicals Polymers Total OPaL Sales



Source: Company, MOFSL

Exhibit 8: OPaL's capacity utilization across units (till Jan'19)

FY19 Capacity Utilization



Source: Company, MOFSL

OPaL: Polymers Value Chain

Exhibit 9: OPaL: HDPE Application Envelope



Source: Company, MOFSL

Exhibit 10: OPaL: LLDPE Application Envelope



Source: Company, MOFSL

Exhibit 11: OPaL: PP Application Envelope



Source: Company, MOFSL

ONGC: Valuation and View

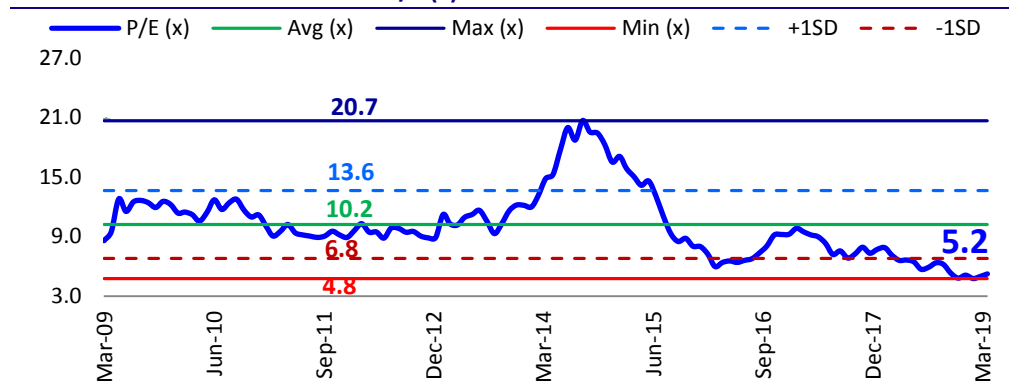
- We estimate crude oil production at 24mmt for FY20/21, factoring in the expected delays in project execution. Gas production is estimated to grow by ~5-6% in FY20/21. Our assumptions are conservative compared to the company's guidance.
- We marginally revise our estimates to take into account (a) change in the exchange rate assumptions and (b) change in production assumptions. The stock is trading at 5.3x FY21E consolidated EPS of INR29.6. We move our valuation from Dec'20 to FY21. Valuing the company at 8x standalone EPS (excluding other income) and adding the value of investments, we reiterate our **Buy** rating with a target price of INR196 (earlier: INR182).

Exhibit 12: SOTP for ONGC

Valuation of ONGC	
FY21 Standalone adj. EPS(INR)	20.8
PE (x)	8.0
Valuation of ONGC stand (INR/share)	166
Listed investments	34
Total valuation	200
Valuation of Mozambique	
Recoverable reserves (tcf)	75
Valuation of block (USD b)	31
ONGC's stake (%)	16
Discount rate (%)	50
Valuation for ONGC (USD b)	3
Value paid (USD b)	3
Valuation for ONGC (INR/share)	(4)
Valuation of ONGC (INR/share)	196

Source: Company, MOFSL

Exhibit 13: ONGC: 1 Year forward P/E (x)



Source: Company, MOFSL

ONGC: Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Income from Operations	17,44,771	16,08,897	13,56,642	32,56,662	36,22,462	46,03,489	49,83,674	50,94,586
Change (%)	7.4	-7.8	-15.7	140.1	11.2	27.1	8.3	2.2
Total Expenditure	11,54,500	10,62,360	9,04,510	26,76,430	29,79,185	37,54,546	40,72,737	41,73,245
% of Sales	66.2	66.0	66.7	82.2	82.2	81.6	81.7	81.9
EBITDA	5,90,270	5,46,538	4,52,132	5,80,232	6,43,277	8,48,943	9,10,937	9,21,341
Margin (%)	33.8	34.0	33.3	17.8	17.8	18.4	18.3	18.1
Depreciation	2,50,690	2,89,844	2,24,626	2,54,388	3,05,506	3,02,896	3,20,230	3,35,365
EBIT	3,39,580	2,56,694	2,27,506	3,25,845	3,37,771	5,46,047	5,90,708	5,85,976
Int. and Finance Charges	6,243	28,624	37,656	35,911	49,990	57,280	57,375	48,875
Other Income	68,937	59,644	81,448	93,232	74,682	7,600	3,945	3,036
PBT bef. EO Exp.	4,02,274	2,87,715	2,71,298	3,83,165	3,62,462	4,96,367	5,37,277	5,40,137
EO Items	2,423	-14,011	-79,433	5,910	2,481	0	0	0
PBT after EO Exp.	4,04,697	2,73,704	1,91,865	3,89,075	3,64,944	4,96,367	5,37,277	5,40,137
Total Tax	1,27,604	96,974	69,507	1,25,484	1,31,395	1,73,728	1,88,047	1,89,048
Tax Rate (%)	31.5	35.4	36.2	32.3	36.0	35.0	35.0	35.0
Share of associates/JVs/Minority int	1,465	-6,606	-8,657	-28,100	-27,131	-27,355	-27,790	-28,392
Reported PAT	2,75,628	1,83,335	1,31,016	2,91,691	2,60,680	3,49,993	3,77,020	3,79,481
Adjusted PAT	2,62,235	1,83,638	1,74,478	2,87,687	2,59,092	3,49,993	3,77,020	3,79,481
Change (%)	8.3	-30.0	-5.0	64.9	-9.9	35.1	7.7	0.7
Margin (%)	15.0	11.4	12.9	8.8	7.2	7.6	7.6	7.4

Consolidated - Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	42,778	42,778	42,778	64,166	64,166	64,166	64,166	64,166
Total Reserves	16,78,732	17,61,767	19,35,359	18,79,686	19,76,023	21,88,279	24,16,520	26,44,731
Net Worth	17,21,510	18,04,544	19,78,136	19,43,852	20,40,189	22,52,445	24,80,686	27,08,897
Minority Interest	29,125	24,731	26,518	1,32,920	1,56,060	1,56,060	1,56,060	1,56,060
Total Loans	4,55,881	5,18,713	4,45,477	7,43,998	10,12,461	7,50,000	6,00,000	5,50,000
Deferred Tax Liabilities	1,78,635	1,81,759	2,64,457	3,52,172	3,98,070	3,98,070	3,98,070	3,98,070
Others	0	0	2,22,258	0	0	0	0	0
Capital Employed	23,85,152	25,29,748	29,36,846	31,72,941	36,06,779	35,56,575	36,34,816	38,13,027
Net Fixed Assets	4,63,007	6,87,881	15,09,467	19,69,350	21,18,473	19,97,927	18,55,380	16,93,478
Goodwill on Consolidation	1,83,545	2,01,399	1,53,301	1,41,904	1,42,026	1,42,026	1,42,026	1,42,026
Capital WIP	5,38,270	4,22,115	2,19,045	2,13,734	2,13,813	3,59,736	5,01,329	6,26,031
Pre & Producing Properties	9,12,682	9,10,049	0	0	0	0	0	0
Exploratory wells under progress	1,82,067	2,11,967	3,57,640	3,76,692	4,01,105	5,02,832	6,13,556	7,45,392
Total Investments	47,459	47,491	4,06,669	7,07,458	6,73,425	6,73,425	6,73,425	6,73,425
Curr. Assets, Loans&Adv.	9,15,192	8,90,070	7,63,161	10,29,380	10,36,518	12,35,969	12,91,972	14,01,084
Others	1,91,685	2,27,546	2,67,452	4,27,862	4,96,397	5,44,670	5,96,300	6,51,623
Inventory	1,48,015	1,06,062	99,181	2,98,817	3,05,630	4,23,965	4,59,896	4,71,245
Account Receivables	1,60,284	1,87,970	95,013	1,39,101	1,55,556	1,87,228	2,02,690	2,07,201
Cash and Bank Balance	2,44,801	1,60,969	2,76,923	1,32,126	50,784	50,548	2,050	38,426
Loans and Advances	1,70,408	2,07,522	24,593	31,473	28,151	29,559	31,036	32,588
Curr. Liability & Prov.	8,57,070	8,41,225	4,72,436	12,65,575	9,78,580	13,55,339	14,42,872	14,68,408
Account Payables	5,43,502	4,90,837	4,60,127	9,84,917	6,83,139	10,59,898	11,47,431	11,72,967
Provisions	3,13,568	3,50,388	12,309	2,80,658	2,95,441	2,95,441	2,95,441	2,95,441
Net Current Assets	58,122	48,845	2,90,725	-2,36,196	57,938	-1,19,370	-1,50,900	-67,324
Misc expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	23,85,151	25,29,748	29,36,846	31,72,942	36,06,779	35,56,575	36,34,816	38,13,027

E: MOFSL Estimates

ONGC: Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
EPS	20.4	14.3	13.6	22.4	20.2	27.3	29.4	29.6
Cash EPS	40.0	36.9	31.1	42.2	44.0	50.9	54.3	55.7
BV/Share	134.1	140.6	154.1	151.5	159.0	175.5	193.3	211.1
DPS	6.3	6.3	5.7	6.9	6.6	9.2	9.9	10.1
Payout (%)	34.5	53.2	66.8	36.0	38.0	39.4	39.5	39.9
Valuation (x)								
P/E		10.9	11.5	7.0	7.7	5.7	5.3	5.3
Cash P/E		4.2	5.0	3.7	3.5	3.1	2.9	2.8
P/BV		1.1	1.0	1.0	1.0	0.9	0.8	0.7
EV/Sales		1.5	1.6	0.8	0.8	0.6	0.5	0.5
EV/EBITDA		4.3	4.8	4.5	4.6	3.2	2.9	2.7
Dividend Yield (%)	4.1	4.1	3.6	4.5	4.2	5.9	6.4	6.5
FCF per share	-0.5	-2.3	36.5	13.3	-17.0	31.2	19.5	18.5
Return Ratios (%)								
RoE	16.2	10.4	9.2	14.7	13.0	16.3	15.9	14.6
RoCE	14.3	9.1	8.3	11.1	9.2	11.9	12.7	12.1
Working Capital Ratios								
Fixed Asset Turnover (x)	1.2	1.1	0.5	1.0	1.0	1.2	1.3	1.3
Asset Turnover (x)	0.7	0.6	0.5	1.0	1.0	1.3	1.4	1.3
Inventory (Days)	31	24	27	33	31	34	34	34
Debtor (Days)	34	43	26	16	16	15	15	15
Creditor (Days)	114	111	124	110	69	84	84	84
Leverage Ratio (x)								
Current Ratio	1.1	1.1	1.6	0.8	1.1	0.9	0.9	1.0
Interest Cover Ratio	54.4	9.0	6.0	9.1	6.8	9.5	10.3	12.0
Net Debt/Equity	0.1	0.2	0.1	0.3	0.5	0.3	0.2	0.2

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	3,94,134	2,73,704	1,91,865	3,89,075	3,64,944	4,96,367	5,37,277	5,40,137
Depreciation	1,85,888	1,80,277	1,63,841	2,02,192	2,30,885	3,02,896	3,20,230	3,35,365
Change in deferred tax	37,031	2,092	93,415	86,602	47,430	0	0	0
Direct Taxes Paid	-1,27,604	-96,974	-69,507	-1,25,484	-1,31,395	-1,73,728	-1,88,047	-1,89,048
(Inc)/Dec in WC	1,30,409	-74,555	-1,25,927	3,82,124	-3,75,476	1,77,072	-16,968	-47,199
CF from Operations	6,19,858	2,84,543	2,53,688	9,34,509	1,36,388	8,02,607	6,52,492	6,39,254
Others	8,194	2,212	2,32,702	-87,757	50,272	27,355	27,790	28,392
CF from Operating incl EO	6,28,052	2,86,755	4,86,390	8,46,752	1,86,659	8,29,961	6,80,282	6,67,646
(Inc)/Dec in FA	-6,34,865	-3,16,264	-17,980	-6,75,816	-4,04,501	-4,30,000	-4,30,000	-4,30,000
Free Cash Flow	-6,813	-29,509	4,68,410	1,70,936	-2,17,841	3,99,961	2,50,282	2,37,646
(Pur)/Sale of Investments	-26,177	-32	-3,59,178	-3,00,789	34,033	0	0	0
Others	-1,00,937	-16,822	37,381	12,510	-1,654	0	0	0
CF from Investments	-7,61,979	-3,33,118	-3,39,777	-9,64,095	-3,72,121	-4,30,000	-4,30,000	-4,30,000
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	2,51,373	62,832	-73,237	2,98,521	2,68,463	-2,62,461	-1,50,000	-50,000
Dividend Paid	-95,090	-97,540	-87,520	-1,04,941	-99,174	-1,37,737	-1,48,779	-1,51,270
Others	26,255	-2,761	1,30,097	-2,21,035	-65,169	0	0	0
CF from Fin. Activity	1,82,538	-37,469	-30,660	-27,454	1,04,120	-4,00,197	-2,98,779	-2,01,270
Inc/Dec of Cash	48,611	-83,832	1,15,953	-1,44,796	-81,342	-236	-48,497	36,376
Opening Balance	1,96,191	2,44,801	1,60,969	2,76,923	1,32,126	50,784	50,548	2,050
Closing Balance	2,44,801	1,60,969	2,76,922	1,32,127	50,784	50,548	2,050	38,426

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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