

Lower operational income and exchange fluctuation losses drag profitability margins

Owing to under recoveries (Rs 5515 crore) and loss of Rs 862 crore incurred on account of currency fluctuations, EBITDA margin in Q1FY11 declined by 520 bps to 59.3%. Each barrel of oil sold during the current quarter fetched 22.6% lower price to ONGC as compared to same period in the last year. Meanwhile, due to lower operating margin, net margin for Q1FY11 declined by 550 bps. However, with decontrol of petrol prices and hike in gas price, we expect company to post better margins for the latter part of year.

Subsidy Impact on Profit		(In Rs Crores)			
Details	Q1FY09	Q1FY09	FY10	FY09	FY08
Gross Discount	5,515	429	11,554	28,225	22,001
Impact on Statutory Levies	790	63	1,629	4,292	1,942
Impact on Profit Before Tax	4,725	366	9,925	23,933	20,059
Impact on Profit After Tax	3,119	242	6,551	15,798	13,241

New discoveries, investment in renewable resources and MRPL to offer significant revenue streams

During the quarter ONGC made 5 new oil discoveries. Aided by these new discoveries the company aims to ramp up both its oil and gas production capacities. Besides this, with the investment of Rs 650 crore the company has planned to set up 102 MW wind farm in Rajasthan to be commissioned by Sep 2011. Meanwhile, with the installation of SPM at New Mangalore Port, the company has enhanced coastal infrastructural facilities for MRPL. It will enable MRPL to receive crude in VLCC (Very Large Crude Carriers) tankers

Valuation and recommendation

At CMP of Rs 1276.5 the stock is trading at 10.3x of its FY 12 earnings of Rs 124.4. With its production likely to increase and better realization in few years, we recommend a **'BUY'** on stock at CMP.

Result Update



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(Rs. In Cr.)

Oil & Natural Gas Corpn. Ltd.	Q1FY11	Q1FY10	% Chg.	Q1FY11	Q4FY10	% Chg.	FY201003	FY200903	% Chg.
Net Sales	13665.6	14879.3	-8.2	13665.6	14713.3	-7.1	59987.6	63599.8	-5.7
Other operational Income	157.4	256.8	-38.7	157.4	1289.1	-87.8	1994.9	948.0	110.4
Total Oper. Income(TOI)	13823.0	15136.1	-8.7	13823.0	16002.3	-13.6	61982.5	64547.8	-4.0
Raw Materials Cons.-	135.3	110.7	22.2	135.3	195.7	-30.9	570.3	768.2	-25.8
% to TOI	1.0%	0.7%	-	1.0%	1.2%	-	0.9%	1.2%	-
Stock adj. (-)Inc / (+)Dec-	-92.3	-119.8	-22.9	-92.3	53.5	PL	-118.0	-81.1	45.6
% to TOI	-0.7%	-0.8%	-	-0.7%	0.3%	-	-0.2%	-0.1%	-
Net Raw Mat adj. for stock	43.0	-9.1	LP	43.0	249.1	-82.8	452.3	687.1	-34.2
% to TOI	0.3%	-0.1%	-	0.3%	1.6%	-	0.7%	1.1%	-
Other expenses	5307.9	5136.2	3.3	5307.9	6069.1	-12.5	22932.2	31076.6	-26.2
% to TOI	38.4%	33.9%	-	38.4%	37.9%	-	37.0%	48.2%	-
Contribution Net_Sales	8472.1	10009.1	-15.4	8472.1	9684.1	-12.5	38598.0	32784.2	17.7
Personnel	278.9	251.2	11.0	278.9	266.1	4.8	1106.7	886.8	24.8
% to TOI	2.0%	1.7%	-	2.0%	1.7%	-	1.8%	1.4%	-
Total expenditure	5629.8	5378.3	4.7	5629.8	6584.3	-14.5	24491.2	32650.5	-25.0
Operating Profit	8193.2	9757.8	-16.0	8193.2	9418.0	-13.0	37491.4	31897.4	17.5
% to TOI	59.3%	64.5%	-	59.3%	58.9%	-	60.5%	49.4%	-
Non-Operating Income	407.2	788.0	-48.3	407.2	469.1	-13.2	2219.9	4221.5	-47.4
Interest	2.8	6.1	-54.8	2.8	56.1	-95.1	68.7	119.0	-42.3
Exceptional Items		0.0			0.0	0.0	0.0		0.0
Gross Profit	8597.7	10539.7	-18.4	8597.7	9831.1	-12.6	39642.6	35999.9	10.1
Depreciation	3114.3	3178.9	-2.0	3114.3	4448.0	-30.0	14658.8	12084.9	21.3
PBT before Extra-ord	5483.4	7360.8	-25.5	5483.4	5383.1	1.9	24983.8	23915.0	4.5
% to TOI	39.7%	48.6%	-	39.7%	33.6%	-	40.3%	37.1%	-
Extraordinary Items		0.0			0.0	0.0	0.0	43.4	-100.0
PBT	5483.4	7360.8	-25.5	5483.4	5383.1	1.9	24983.8	23958.4	4.3
Tax Rate	33.2%	34.1%	-	33.2%	29.9%	-	32.9%	32.7%	-
Prov. for Tax	1822.3	2512.9	-27.5	1822.3	1606.6	13.4	8216.3	7832.1	4.9
% to TOI	13.2%	16.6%	-	13.2%	10.0%	-	13.3%	12.1%	-
Profit after Tax	3661.1	4847.9	-24.5	3661.1	3776.4	-3.1	16767.6	16126.3	4.0
% to TOI	26.5%	32.0%	-	26.5%	23.6%	-	27.1%	25.0%	-
Face Value	10.0	10.0	0.0	10.0	10.0		10.0	10.0	0.0
Equity Share capital	2138.9	2138.9	0.0	2138.9	2138.9	0.0	2138.9	2138.9	0.0
EPS (Rs.)	17.1	22.7	-24.5	17.1	17.7	-3.1	78.4	75.4	4.0
CEPS (Rs.)	31.7	37.5	-15.6	31.7	38.5	-17.6	146.9	131.9	11.4

Source: ACE Equity

Result Update



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