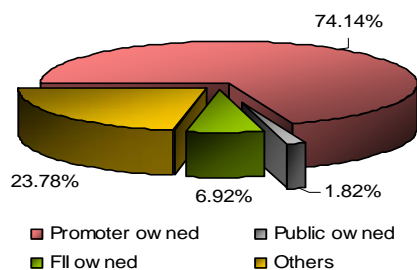


Company report**Oil & Natural Gas Corporation Ltd.**30th July'08**BUY**

CMP	Rs 990
Target Price	Rs 1556
BSE Code	500312
NSE Code	ONGC
Market Cap	Rs 2116620
52 Week High/Low	770/1386
Industry	Oil & Gas
Face Value	Rs 10
Shares O/S	2,138,872,530
Avg Daily Vol (30 Days)	4768.00

EPS	87.35
CEPS	138.04
Book Value	366.63
Beta	1.17
P/E	11.31
P/B	2.70

Shareholding Pattern

Oil and Natural Gas Corporation (ONGC) has announced results for the first quarter of FY09 and has beaten all the market expectations. Being one of the highest profitable companies in India with a 74.14 % stake of the Indian government, the company contributes 76 % of India's crude oil production and 68 % of the country's total Gas production.

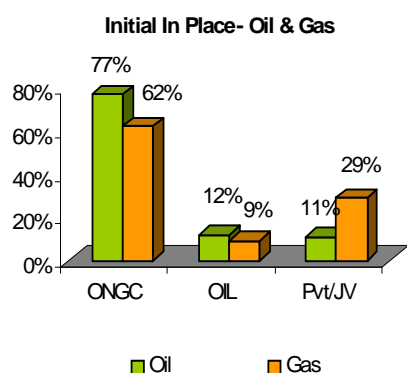
Q1FY09 Performance Highlights

- The company has posted excellent results for the quarter ended June 2008. The net sales of the company have grown by **28.33%** on QoQ basis and 46 % on YoY basis at Rs 200522 million much ahead of the market expectations. EBITDA for Q1FY09 stood at Rs 117554 million versus Rs 79222.80 million clocked in corresponding quarter of the previous year showing a whopping growth of 48 % mainly due to effective cost management and increased realizations. The bottom line surged by a magnificent **43%** YoY to Rs 65929.30 million despite the subsidy burden shared by the company. On a quarterly basis the rise has been at 150.96 % indicating the profitability due to soaring crude prices.
- The margins of the company have also been well protected. The EBITDA margins for Q1FY09 stood at 58.62 % indicating an expansion of 74 bps from the year ago level. The Net Profit Margins remained a bit under pressure mainly due to the subsidy shared by the company but apart from that the expansion has been fantastic. NPM for the quarter ended June 2008 stood at 32.88 % vs. 33.68 % in June 2007. The Earning per share has increased sharply to **Rs 30.82** (for Q1FY09) vs. Rs 21.56 in the corresponding quarter in the previous year.
- The production of crude oil in Q1FY09 remained almost flat with a marginal rise at **6.41MT** against a production of 6.38 MT in Q1FY08. On the natural gas front, the production stood at **5.63 BCM** of gas during Q1FY09, up from 5.5 BCM in the year-ago quarter. The company had to bear a subsidy payout of Rs 9,811 crore, almost a three-fold increase from Rs 3,649 crore in Q1FY08. Gross realization on crude oil was \$125.85 per barrel but net realization stood at \$69.14 per barrel after taking into account the subsidy payout. During the quarter, the company sold crude oil at 37.34 % higher prices even after giving discounts to oil marketing companies as a part of the government's subsidy-sharing burden.

Business Details

Incorporated on June 23, 1993 ONGC is engaged in oil & gas exploration and production both on shore and off shore. The company is exploiting hydrocarbons in 26 sedimentary basins of India and owns and operates more than 11,000 Km of pipeline in India including nearly 3,200 Km of sub-sea pipelines. ONGC has established 6.42 billion tonnes of In-place hydrocarbon reserves with more than 300 discoveries of oil and gas. out of these In-place hydrocarbons in domestic acreages, Ultimate Reserves are 2.29 Billion Metric tonnes (BMT) of Oil Plus Oil Equivalent Gas (O+OEG).and cumulatively producing 762.3 Million Metric Tonnes (MMT) of crude and 440.7 Billion Cubic Meters (BCM) of Natural Gas, from 115 fields.

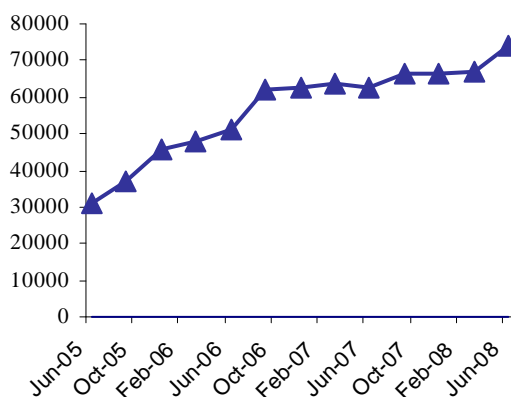
It holds 57.2%, the largest share of hydrocarbon acreages in India. The oil major picked up 71.6 % equity in the Mangalore Refinery & Petrochemicals (MRPL) and also took up a 23% stake in the 364 km long Mangalore-Hasan-Bangalore product pipeline connecting the refinery to the Karnataka hinterland. ONGC has entered the global field through its subsidiary, ONGC Videsh. ONGC has made major investments in Vietnam, Sakhalin and Sudan and earned its first hydrocarbon revenue from its investment in Vietnam. It has acquired 25% equity in the Greater Nile oil project in Sudan, the first producing oil property. ONGC Nile Ganga BV, a wholly-owned subsidiary, has been set up in the Netherlands to manage this property.



Industry Outlook

The Oil & Gas Industry has been instrumental in fuelling the rapid growth of the Indian economy. It contributes about 45% of the total energy consumption of the country. The domestic production of crude oil has been increasing steadily. Being strategically located on the route of Middle East crude for East Asian and Pacific markets, India has emerged as the global hub for refining due to competitive cost advantage. The industry has line up strategic overseas investments in oil & gas fields to meet the spiraling demand. Investments have been made in as diverse countries as Russia, Sudan, Iraq, Libya, Egypt, Qatar, Ivory Coast, Australia, Vietnam and Myanmar etc. Surging automobile sales have led to significant investments in expansion the petroleum retail market. Apart from this, per capita consumption of natural gas in India is amongst the lowest in the world at 29 CM as against the world average of 538 CM, leaving huge potential in this sector. Rise in the crude oil prices have raised the price of Indian basket of crude oil by 76% to \$118.9/bbl. Oil revenues have grown but the subsidy burdens on the companies has offset the profits partially. India's energy demand is estimated to increase 5 fold over the next 25 years. India's oil demand is expected to grow at an average annual rate of 3.6 % to 196 MMT in 2011-12 and 250 MMT in 2024-25. The Government plans to expand the exploration licensing area from 44 per cent of the Indian sedimentary basin in 2007 to 80 % by 2011-12 and 100 % by 2015. Therefore, we are bullish about the industry in near term with ONGC being a valuable nick.

Trends In Investment(Rs crores)



Investment Rationale

ONGC plans a foray into Uranium Mining

The company plans to foray into uranium mining to take advantage of opportunities arising from the India-US civilian nuclear deal. ONGC plans into an agreement with the Uranium Corporation of India for exploration and mining of uranium for usage in the nuclear power plants. The company has found promising traces of uranium in various oil and gas wells and will be in a better position to exploit the same in collaboration with UCIL. This will leverage the company's expertise in exploration of hydrocarbons to commercially exploit uranium. Currently, ONGC is passively studying the prospects through ONGC Energy Center by studying the logs of existing wealth. This would be an opportunity to synergize the respective strengths of both ONGC and UCIL in pursuing opportunities for exploration and exploitation of uranium in India and abroad.

Eleven Oil & Gas discoveries made and OVL's bid in Ecuador

The company has discovered 11 new Oil & gas sites out of which four lie in the West Offshore and Onshore Basins (3 for gas and 1 for oil) while two have been discovered in the Cauvery Basin (Oil & Gas) and 3 in the KG-PG Basin (Oil & Gas) and 1 in the KG Basin (Oil & Gas) and last in the A&AA Basin (Oil). ONGC Videsh, the overseas arm of the state-owned ONGC will bid for oil blocks in Ecuador jointly with Petro Ecuador, its counterpart in the foreign country. Ecuador will shortly put up seven blocks on auction. The seven blocks comprise of two offshore oil and gas blocks and five on shore blocks. The blocks being offered are scattered along Ecuador's coastline, ranging from bordering Peru to the Gulf of Guayaquil on the Venezuela border.

Significant Capex plans to boost existing Capacity

ONGC has earmarked Rs 18,000 crore in the current financial year to increase its capacity and meet the energy needs of the country. ONGC is also about to start its Tripura gas field project from this fiscal, which will produce 6 metric million standard cubic metres per day (mmscmd) of gas at an investment of Rs 4,3760 million.

Another plan to develop the North Tapti field at an estimated investment of Rs 5800 million has also been cleared by the company's board of directors, which is expected to be completed by 2011.

The company will supply 0.5 million cubic meters per day of Gas for a period of 15 years to the gas based power station of North Eastern Power Corporation Ltd. (NEEPCO) coming up at Monarchak at Tripura. This one of the first agreement to be signed by the company based on the market prices.

Standalone Financial Matrix

Particulars	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09
Net sales	136877.00	154139.20	151208.30	156260.7	200522.00
Growth%	--	12.61	(1.90)	3.34	28.33
Expenditure	57654.20	69986.10	70890.60	98494.1	82968.00
EBITDA	79222.80	84153.10	80317.70	57766.60	117554.00
Growth%	--	6.22	(4.56)	-28.08	103.50
EBITDA margin	57.88	54.60	53.12	36.97	58.62
Other income	8388.10	12099.00	8629.80	20337.10	10500.20
Depreciation	17545.60	19871.30	22117.50	38444.80	27970.10
EBIT	70065.30	76380.80	66830.00	39658.90	100084.10
Interest	47.50	304.90	114.00	123.40	38.10
PBT	70017.80	76075.90	66716.00	39535.50	100046.00
Tax	23912.50	25101.80	23050.60	13264.50	34116.70
Adjusted PAT	46105.30	50974.10	43665.40	26271.00	65929.30
Growth %	--	10.56	(14.34)	(39.84)	150.96
Net Profit margins	33.68	33.07	28.88	16.81	32.88
Extra ordinary items	--	--	--	--	434.1
Reported PAT	46105.30	50974.10	43665.40	26271.00	66363.40
Equity Capital	21388.70	21388.70	21388.70	21388.70	21388.70
EPS	21.56	23.83	20.42	12.28	30.82
CEPS	29.76	33.12	30.76	30.26	43.90
ROE	215.56	238.32	204.15	122.83	308.24
Sales/Equity	6.40	7.21	7.07	7.31	9.38

Annual Financial Snapshot

Particulars	FY05	FY06	FY07	FY08
Net Sales	463629.40	479229.70	566328.10	598485.20
EBITDA	241750.80	273459.50	284729.90	300808.30
EBIT	197032.60	212436.60	232166.50	252935.70
PAT[^]	129830.50	137903.40	151678.60	167016.50
Equity Capital	14259.30	14259.30	21388.70	21388.70
EPS[*]	91.05	101.20	73.14	78.09
CEPS[*]	134.54	160.51	117.55	123.90

[^] Adjusted PAT excluding extra ordinary Items

^{*} Calculated on Reported PAT

Past Price movement of the stock



Valuation

Being one of the most profitable PSU of the country, ONGC has been on the growth trajectory since its inception. The company has created immense wealth for its shareholders by far and is expected to continue the same with its ongoing capex plans and significant international and domestic operations by its subsidiaries. With the global scenario of crude oil being active, the company stands in a commendable position to benefit from the same. At the same time company's foray into uranium mining shall also add on tremendously to its existing position. The burden of the government subsidy may erode some of the profits of the company but still a more transparent and ad valorem system of subsidy and super profit tax as advocated by the industry may provide some relief.

At the current market price of Rs 990, the stock is trading at 11.31 times to its earnings and 2.70 times to its book value of Rs 366.63. The stock seems extremely attractive at the current levels when compared to the industry peers. We, therefore initiate a BUY signal on the stock with a target price of Rs 1556 in the medium to long term investment horizon expecting an appreciation of 57 % from the current levels.

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