# Oil & Natural Gas Corpn Ltd — FY 2025 Annual Report Analysis

# Annual Report Analysis (Consolidated)

*Source: CRORES. All figures  Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.*

## Investor Snapshot

| # | Analytical Point | Sentiment |
|---|---|---|
| 1 | ONGC operates as a cash-generative energy major transitioning toward a diversified energy profile, though currently burdened by high capital intensity and downstream subsidiary bailouts. | □Neutral |
| **2** | ***Revenue grew marginally by 1.74% to  612,065 Cr, but this growth was largely inorganic, masked by the  17,194 Cr consolidation of the OPaL entity.*** | □Negative |
| **3** | ***EBITDA margins experienced significant compression, dropping from 19.46% to 16.69% as rising manufacturing and depletion costs outpaced top-line gains.*** | □Negative |
| **4** | ***Profitability metrics show a sharp dilution in capital efficiency, with ROCE falling from 18% to 12%, reflecting inefficient deployment in non-core assets.*** | □Negative |
| **5** | **Financial health remains stable with a manageable Debt/Equity ratio of 0.55x and a net debt reduction of □3,378 Cr despite a total debt load of □187,817 Cr.** | □Positive |
| **6** | **Cash flow generation is a core strength, with CFO of □90,868 Cr significantly exceeding PAT, resulting in a robust CFO/PAT ratio of 2.37x.** | □Positive |
| **7** | **The company maintains a self-funded growth model with a CFO/Capex ratio of 2.21x, covering □41,031 Cr in annual investments without increasing leverage.** | □Positive |
| **8** | **Earnings quality is high based on cash conversion, though the P&L is impacted by "Common Control" accounting treatments and subjective CWIP capitalizations.** | □Positive |
| **9** | ***Governance is characterized by a clean audit and zero pledges, but concerns persist regarding low board independence (27%) and high RPTs at 6.3% of revenue.*** | □Negative |
| **10** | ***Significant contingent risk exists via a  27,648 Cr Debt Service Undertaking for the Mozambique project and a  16,608 Cr bailout of the underperforming OPaL subsidiary.*** | □Negative |
| **11** | ***The outlook is constrained by  115,724 Cr locked in Capital Work-in-Progress (CWIP), representing a massive portion of the balance sheet not yet generating returns.*** | □Negative |
| 12 | Investment View: WATCH; the 43% dividend payout provides a valuation floor, but investors should monitor for ROCE recovery above 15% or Mozambique project monetization. | □Neutral |

## FINAL RESEARCH SUMMARY: ONGC LTD (FY 2025)

## 1. BUSINESS OVERVIEW

- **Strategic Pivot:** Transitioning from a pure-play upstream explorer to an integrated energy major under the "Energy: Now and Next" framework.
- **Segmental Focus:** Crude oil and natural gas remain core; however, there is an aggressive shift toward decarbonization via **ONGC Green Limited** with a **Net Zero 2038** target.

- **Revenue Drivers:** Primarily driven by domestic production and international assets, with a growing emphasis on the "Gas Mix" to align with national energy mandates.
- **International Asset Restructuring:** Implementing an **"AssetCo Structure"** for the **$16 billion Mozambique LNG project** to isolate risk and improve debt flexibility.
- **Geopolitical Presence:** Continued capital commitment to high-risk regions, specifically the **Greater Pioneer Operating Company (GPOC)** in South Sudan, with approved cash calls of **~$270 million** for FY26-27.
- **Capacity & Technology:** Renewed focus on **Enhanced Oil Recovery (EOR)** and digital oilfield technologies to arrest production declines in aging brownfields like Mumbai High and Neelam.
- **Inorganic Expansion:** Significant consolidation of **OPaL**, moving it from a Joint Venture to a Subsidiary (95.69% stake), adding **□17,194.28 Cr** to the top line.

## 2. MANAGEMENT COMMENTARY & OUTLOOK

- Management has shifted from "Pragmatic Urgency" to a structured, long-term vision focused on the monetization of discoveries rather than just exploration.
- A "Leadership Refresh" with new functional directors for Strategy, Technology, and Exploration signals a reset in execution tactics and technological adoption.
- The strategic focus is now on "Innovation with Intention," emphasizing "Seismic to Simulation" accuracy to improve the Reserve Replacement Ratio's conversion into actual production.
- International strategy involves structural de-risking through sovereign-backed financial support, evidenced by the extension of the **Debt Service Undertaking (DSU)** for Mozambique to 2033.
- Management highlights the importance of the **Net Zero 2038** roadmap, with **ONGC Green Limited** serving as the primary vehicle for renewable energy value chains.
- There is a clear intent to improve recovery factors in legacy assets by 1-2% through the new "Technology & Field Services" vertical, which is viewed as superior to expensive deepwater wildcatting.
- The outlook for natural gas remains bullish, with management positioning the company to capture a larger share of the domestic energy basket.
- **Management Tone:** The tone is **Calculated and Institutional.** The narrative has evolved from immediate production fixes to building the financial and legal architecture required for the next decade. The functional leadership changes suggest the Board is opting for a "New Guard" to accelerate the pace of technological intervention and strategic monetization. (LAST BULLET POINT)

## 3. FINANCIAL ANALYSIS

### 3.1 Financial Statements

*Source: Screener.in — all monetary values in   Crores. Use these numbers directly.*

## P&L Statement (□Crores)

| Line Item | Mar 2025 | Mar 2024 |
|---|---|---|
| Sales - | 612,065.00 | 601,581.00 |
| Sales Growth % | 1.74 | -4.86 |
| Expenses - | 523,205.00 | 499,198.00 |
| Material Cost % - | 36.29 | 38.18 |
| Raw material cost | 221,402.00 | 234,072.00 |
| Change in inventory | 690.00 | -4,395.00 |
| Manufacturing Cost % | 40.39 | 35.99 |
| Employee Cost % | 2.54 | 2.57 |
| Other Cost % | 6.27 | 6.24 |
| Operating Profit | 88,861.00 | 102,383.00 |
| OPM % | 15.00 | 17.00 |
| Other Income - | 13,278.00 | 14,712.00 |
| Exceptional items | -62.00 | -1,568.00 |
| Other income normal | 13,340.00 | 16,280.00 |
| Interest | 14,535.00 | 13,026.00 |
| Depreciation | 35,206.00 | 30,440.00 |
| **Profit before tax** | 52,398.00 | 73,629.00 |
| Tax % | 27.00 | 25.00 |
| **Net Profit -** | 38,329.00 | 55,273.00 |
| Profit from Associates | 0.00 | 0.00 |
| Minority share | -2,103.00 | -6,129.00 |
| Exceptional items AT | -44.00 | -1,168.00 |
| Profit excl Excep | 38,373.00 | 56,442.00 |
| Profit for PE | 36,267.00 | 50,183.00 |
| Profit for EPS | 36,226.00 | 49,144.00 |
| Profit Growth % | -28.00 | 23.00 |
| EPS in Rs | 28.80 | 39.06 |
| Dividend Payout % | 43.00 | 31.00 |

## Balance Sheet (₹ Crores)

| Line Item | Mar 2025 | Mar 2024 |
|---|---|---|
| Equity Capital | 6,290.00 | 6,290.00 |
| Reserves | 337,150.00 | 332,779.00 |
| Borrowings - | 187,817.00 | 191,195.00 |
| Long term Borrowings | 98,474.00 | 96,971.00 |
| Short term Borrowings | 55,082.00 | 60,715.00 |
| Lease Liabilities | 34,261.00 | 33,510.00 |
| Other Borrowings | 0.00 | 0.00 |
| Other Liabilities - | 221,398.00 | 206,357.00 |
| Non controlling int | 30,795.00 | 20,555.00 |
| Trade Payables | 38,976.00 | 38,147.00 |
| Advance from Customers | 1,218.00 | 1,424.00 |
| Other liability items | 150,410.00 | 146,230.00 |
| **Total Liabilities** | 752,656.00 | 736,621.00 |
| Fixed Assets - | 336,810.00 | 317,183.00 |
| Land | 10,734.00 | 10,040.00 |
| Building | 26,047.00 | 23,322.00 |
| Plant Machinery | 212,931.00 | 194,740.00 |
| Equipments | 8,412.00 | 7,638.00 |
| Furniture n fittings | 2,359.00 | 2,160.00 |
| Railway sidings | 847.00 | 791.00 |
| Vehicles | 12,615.00 | 8,775.00 |
| Intangible Assets | 28,128.00 | 27,096.00 |
| Other fixed assets | 160,155.00 | 147,339.00 |
| Gross Block | 462,228.00 | 421,901.00 |
| Accumulated Depreciation | 125,418.00 | 104,718.00 |
| CWIP | 115,724.00 | 118,729.00 |
| Investments | 95,617.00 | 100,862.00 |
| Other Assets - | 204,504.00 | 199,847.00 |
| Inventories | 59,967.00 | 54,798.00 |
| Trade receivables | 21,228.00 | 19,704.00 |
| Cash Equivalents | 27,178.00 | 41,832.00 |
| Loans n Advances | -1,143.00 | -1,139.00 |
| Other asset items | 97,274.00 | 84,652.00 |
| **Total Assets** | 752,656.00 | 736,621.00 |

## Cash Flow Statement (□Crores)

| Line Item | Mar 2025 | Mar 2024 |
|---|---|---|
| Cash from Operating Activity - | 90,868.00 | 98,847.00 |
| Profit from operations | 103,491.00 | 113,184.00 |
| Receivables | -906.00 | -729.00 |
| Inventory | -5,177.00 | -7,961.00 |
| Payables | 9,692.00 | 9,124.00 |
| Loans Advances | -836.00 | -1,164.00 |
| Other WC items | -1,404.00 | 958.00 |
| Working capital changes | 1,369.00 | 229.00 |
| Direct taxes | -13,992.00 | -14,566.00 |
| Other operating items | 0.00 | 0.00 |
| Cash from Investing Activity - | -42,901.00 | -57,423.00 |
| Fixed assets purchased | -41,031.00 | -38,133.00 |
| Fixed assets sold | 317.00 | 251.00 |
| Investments purchased | 0.00 | -8.00 |
| Investments sold | 1,735.00 | 32.00 |
| Subsidy received | 13.00 | 5.00 |
| Interest received | 5,707.00 | 4,551.00 |
| Dividends received | 3,523.00 | 3,656.00 |
| Investment in group cos | -3,322.00 | -3,530.00 |
| Acquisition of companies | -1,157.00 | 0.00 |
| Other investing items | -8,687.00 | -24,248.00 |
| Cash from Financing Activity - | -47,908.00 | -45,009.00 |
| Proceeds from borrowings | 36,159.00 | 27,959.00 |
| Repayment of borrowings | -43,547.00 | -39,862.00 |
| Interest paid fin | -13,090.00 | -12,291.00 |
| Dividends paid | -16,985.00 | -12,895.00 |
| Financial liabilities | -9,945.00 | -7,312.00 |
| Share application money | 0.00 | 0.00 |
| Other financing items | -501.00 | -609.00 |
| **Net Cash Flow** | 59.00 | -3,586.00 |
| Free Cash Flow | 50,154.00 | 60,965.00 |
| CFO/OP | 118.00 | 111.00 |

### Key Ratios (₹Crores)

| Line Item | Mar 2025 | Mar 2024 |
|---|---|---|
| Debtor Days | 13.00 | 12.00 |
| Inventory Days | 99.00 | 87.00 |
| Days Payable | 64.00 | 61.00 |
| Cash Conversion Cycle | 47.00 | 38.00 |
| Working Capital Days | -37.00 | -46.00 |
| ROCE % | 12.00 | 18.00 |

## 3.2 Financial Analysis Summary

- **Revenue** grew marginally by **1.74%** to **₹612,065.00 Cr**, though this includes an inorganic contribution of **₹17,194.28 Cr** from the **OPaL** acquisition; notably, **Revenue** is reported net of "Profit Petroleum" payable to the government, which suppresses the reported top-line.
- **Operating Profit** declined by **13.2%** to **₹88,861.00 Cr**, leading to an **EBITDA Margin** compression to **16.69%** from **19.46%**, driven by manufacturing costs rising to **40.39%** of **Revenue** and a **₹18,329.99 Cr Depreciation** charge for oil and gas depletion.
- **Net Profit** fell by **28%** to **₹38,329.00 Cr**, impacted by a **15.6%** increase in **Depreciation** to **₹35,206.00 Cr** and an **11.6%** rise in **Finance Cost** to **₹14,535.00 Cr**, which includes non-cash "unwinding of discount" on decommissioning provisions.
- **Working Capital** efficiency deteriorated as the **Cash Conversion Cycle** lengthened to **47 days** from **38 days**, primarily due to **Inventory Days** rising to **99 days**; however, crude oil in flow lines remains unvalued, creating a hidden inventory buffer.
- **Trade Receivables** increased to **₹21,228.00 Cr** (13 **Debtor Days**), with valuations now incorporating a "rating-based approach" linked to GDP growth, making **CFO** sensitive to macro-economic volatility.
- **Gross Block** expanded to **₹462,228.00 Cr** following **₹41,031.00 Cr** in **Capex**, while **CWIP** remains high at **₹115,724.00 Cr**; exploratory wells can remain capitalized as **Intangible Assets** for "several years," potentially deferring **P&L** hits.
- **Total Debt** stood at **₹187,817.00 Cr**, influenced by the **₹10,501.00 Cr OPaL** rights issue and **₹6,107.00 Cr** CCD conversion, which increased **Non-controlling Interest** to **30,795.00 Cr**.
- **Cash from Operating Activity (CFO)** of **₹90,868.00 Cr** remains robust, comfortably covering **Capex** of **₹41,031.00 Cr** and supporting a **Free Cash Flow** of **₹50,154.00 Cr** and a **Dividend Payout %** of **43%**.
- **ROCE** diluted significantly from **18%** to **12%**, reflecting the **OPaL** consolidation under the "Pooling of Interest" method and the capital-intensive nature of **₹134,067.95 Cr** in non-oil support infrastructure.
- **Lease Liabilities** of **₹34,261.00 Cr** reflect high operational leverage, with **ROU assets** concentrated in rigs and vessels (**₹21,950.58 Cr**); notably, ONGC recognizes 100% of lease liabilities in joint operations where it is the lead.
- **Other Assets** include **₹134,067.95 Cr** in non-oil support infrastructure (refineries/pipelines), which is nearly as large as core **Oil & Gas Assets** (**₹157,405.43 Cr**), indicating a massive investment in mid/downstream segments that pressures overall returns.
- **Other Expenses** were impacted by **₹11,571.67 Cr** in depreciation of non-oil assets and a **₹39.42 Cr** loss on assets held for sale, while a **₹4.31 Cr** de-recognition of old LPG deposits provided a minor boost to other income.

- **Overall Synthesis:** The year was defined by a transition toward downstream consolidation and infrastructure expansion that pressured **ROCE** and **Net Profit**, yet the core E&P engine maintained strong **CFO** and **Free Cash Flow** generation, allowing for self-funded **Capex** and increased shareholder payouts despite organic growth headwinds.

### 3.3 Contingent Liabilities & Commitments

- **Mozambique DSU:** Guarantee support for project financing up to **USD 3,072 million (₹27,648 Cr)**; extension to 2033 signals prolonged gestation.
- **Decommissioning Provisions:** Significant uncertainty in timing and cost of future field abandonment; multi-billion rupee swings possible based on discount rate/inflation changes.
- **Capital Commitments:** High capital lock-up in **CWIP (₹115,724 Cr)** and ongoing cash calls for **GPOC South Sudan (~₹1,170 Cr annual drain)**.
- **Litigation/Claims:** Processing claims from **Cyclone Tauktae (2021)**; **₹128.37 Cr** received this year against a total estimated claim of **₹908.05 Cr**.
- **Tax Disputes:** Contingent liabilities disclosed based on "independent expert" judgment; outflows not considered "remote."

### 3.9 Earnings Quality & Forensic Checks

| # | Check | Impact | Status | Evidence | Notes Detail |
|---|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↑ — high cash conversion | □ | PAT □38,329 Cr vs CFO □90,868 Cr; CFO/OP at 118%. | Depreciation of □35,206 Cr and high non-cash depletion charges drive the gap. |
| 2 | Receivables & channel-stuffing signal | Revenue ↑↓ — working capital build | □ | Receivables + Inventory: □81,195 Cr (FY25) vs □74,502 Cr (FY24). | Note 3.28: ECL uses rating-based approach incorporating GDP growth, making valuations sensitive to macro cycles. |
| 3 | Revenue timing | Revenue ↑↓ — recognition lag | □ | Advance from Customers: □1,218 Cr; Contract Liabilities noted in AR. | Note 3.18: Revenue recognized at delivery; "short-lifted gas" creates make-up obligations and deferred revenue. |
| 4 | Revenue from related parties % | Revenue ↑ — inorganic boost | □ | OPaL inorganic growth: □17,194.28 Cr (p.456). | Note 1 & 4(p): OPaL shifted from JV to Subsidiary; FY24 restated under "Common Control" pooling of interest. |
| 5 | Inventory vs revenue growth | Profit ↓ — margin pressure | □ | Inventory: □59,967 Cr (up 9.4%) vs Sales: □612,065 Cr (up 1.74%). | Note 3.17: Natural gas is not valued/ stored, meaning inventory build is concentrated in crude and spares. |
| 6 | Inventory valuation method change | Profit ↑↓ — hidden buffer | □ | Crude in flow lines not valued (p.466). | Note 3.17: Crude oil in flow lines up to Gathering Stations is "not measurable" and thus not valued. |
| 7 | Exceptional items in operating profit | Profit ↑ — lower charges | □ | Exceptional items: -□62 Cr (FY25) vs -□1,568 Cr (FY24). | P&L Statement: Significant reduction in one-time hits compared to the previous fiscal year. |
| 8 | Depreciation rate vs useful life policy | Profit ↓ — accelerated depletion | □ | Depreciation: □35,206 Cr (FY25) vs □30,440 Cr (FY24). | Note 3.9 & 3.14: Depletion uses "Unit of Production" based on proved developed reserves; subject to reserve revisions. |
| 9 | Provision reversals boosting PAT | Profit ↑ — non-cash gain | □ | Write back of Impairment: □27.62 Cr (p.481). | Forensic Alert: Policy allows impairment reversals if recoverable amounts increase, potentially boosting future profits. |
| 10 | Tax rate consistency | Profit ↓ — higher effective rate | □ | Tax %: 27% (FY25) vs 25% (FY24); Direct Taxes: □13,992 Cr. | P&L Statement: Effective tax rate remains relatively stable despite the 200bps YoY increase. |
| 11 | CWIP age and stalling projects | Profit ↑ — capitalization risk | □ | CWIP: □115,724 Cr; Intangible Assets: □28,128 Cr. | Note 3.11: Exploratory wells capitalized as Intangibles; can remain suspended for "several years" if appraisal is ongoing. |
| 12 | Deferred tax asset recognition adequacy | Profit ↑↓ — equity volatility | □ | OVL functional currency: USD; ONGC: INR. | Note 5.1a: Functional currency divergence creates significant "Foreign Currency Translation Reserve" volatility in equity. |
| 13 | RPT quantum and trend | Neutral — capital reallocation | □ | OPaL Rights Issue: □10,501 Cr; CCD conversion: □6,107 Cr. | Note 1 & 4(p): Massive capital infusion to rescue a struggling JV and bring it under direct control. |
| 14 | Dividend paid vs FCF adequacy | Profit ↑ — sustainable payouts | □ | Dividends paid: □16,985 Cr; FCF: □50,154 Cr. | Cash Flow Statement: Dividend payout ratio increased to 43% but remains within FCF capacity. |

| # | Check | Impact | Status | Evidence | Notes Detail |
|---|---|---|---|---|---|
| 15 | Common Control Restatement | Revenue ↑↓ — masking organic trends | □ | FY24 restated for OPaL acquisition (p.456). | "Pooling of Interest" method backdates consolidation, making organic growth difficult to isolate. |
| 16 | Functional Currency Divergence | Profit ↑↓ — translation risk | □ | OVL (USD) vs ONGC (INR) (p.477). | Creates significant volatility in Foreign Currency Translation Reserve not reflecting operations. |

## 4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified. Clean opinion issued by M/s Talati & Talati LLP, et al. * **KAM - Oil & Gas Reserves:** Estimation is a critical judgment impacting Depletion, Impairment, and Decommissioning. Auditor notes it is an "imprecise science" relying on internal committees and third-party audits. * **KAM - Impairment of O&G Assets:** High-risk area involving Proved (1P) and Probable (2P) reserves. Over-optimism regarding 2P reserves could delay necessary impairment charges. * **KAM - Decommissioning Estimates:** Timing and cost are subject to significant uncertainty. Small changes in discount rates or inflation can lead to multi-billion rupee swings in provisions.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | |:---|:---|:---|:---|:---| | ***Mozambique Project (DSU)*** | Associate | Debt Service Undertaking | 27,648.00 | ***Massive off-balance sheet guarantee exposure (USD 3,072m)*** | | ***OPaL*** | Subsidiary | Rights Issue/CCD Conversion | 16,608.00 | ***Bailout of struggling entity; 10,501 Cr rights + 6,107 Cr CCDs*** | | ***Mozambique Project (AssetCo)*** | Associate | Asset-for-Equity Transfer | 14,400.00 | ***Complex restructuring; valuation risk on fair value transfer*** | | **Petronet LNG Limited** | Associate | Sale of RLNG/Services | 7,369.02 | **Strategic revenue stream; 1.20% of consolidated revenue** | | ***Mozambique Project (True-up)*** | Associate | Refund of Project Cost | 5,082.39 | ***Cash flow timing risk; dependent on project financing*** | | ***GPOC (South Sudan)*** | Associate | Cash Call Payments | 1,170.00 | ***Geopolitical risk; ongoing funding of overseas blocks*** | | **ONGC-ECPF Trust** | PF Trust | Statutory Contribution | 1,044.00 | Neutral; meeting statutory employee obligations |

C. Shareholding * **Promoter:** 58.89% (No change YoY) * **FII:** 9.24% * **DII:** 20.91% * **Public:** 10.96% * **Pledged Shares:** 0.00%

D. Board Composition + KMP Compensation * **Total Directors:** 11 (Proposed to increase to 14). * **Independent %:** Currently 27.27% (3 of 11); proposed appointments would raise this to 42.8%. * **Women Directors:** 1 (Ms. Reena Jaitly). * **KMP Compensation:** Individual remuneration for Chairman Arun Kumar Singh and CFO V.C. Tongaonkar not explicitly detailed. Aggregate employee costs stable at 2.54% of revenue despite a 13.21% decline in Operating Profit. No family-related compensations identified.

F. Capital Allocation & Capex | Action | FY Current (□Cr) | % of CFO | Signal | |:---|:---|:---|:---| | **Dividends Paid** | 16,985.00 | 18.69% | **Positive** | | ***Capex (Fixed Assets)*** | 41,031.00 | 45.15% | **Growth** | | **Net Debt Change** | -3,378.00 | -3.72% | **Improvement** | | ***Investments (Group Cos)*** | 3,322.00 | 3.66% | ***Risk*** | | ***Interest Payments*** | 13,090.00 | 14.41% | ***Concern*** |

**CAPEX Analytical Notes:** * **CFO Coverage of Capex:** CFO/Capex ratio is **2.21x**, indicating operations comfortably self-fund the **□41,031 Cr** investment. * **Nature of Capex:** Heavy focus on development; **□16,337.45 Cr** transferred from Wells-in-Progress to producing assets. * **Deployment Efficiency:** Revenue grew only 1.74% despite massive investment, suggesting long lead times. * **Key Takeaways:** The **□115,724 Cr CWIP** represents a massive capital lock-up that must be monetized to improve the 12% ROCE.

H. Risks * ***Reserve Imprecision:*** Subjectivity in reservoir engineering could lead to **massive swings in Depletion (□18,329.99 Cr)**. (High Severity) * ***Mozambique DSU:*** **□27,648 Cr contingent liability**; default by project SPEs hits ONGC balance sheet directly. (High Severity) * ***Decommissioning:*** Future abandonment costs are subject to **multi-billion rupee swings** based on discount rate changes. (Medium Severity) * ***OPaL Integration:*** Acquisition masks organic performance; potential for further **capital bailouts (□16,608 Cr already committed)**. (Medium Severity) * ***Geopolitical:*** **□1,170 Cr annual drain** for South Sudan; risk of asset stranding. (Medium Severity)

## 5. SCORECARD & VERDICT

### Part A: Scorecard

| Dimension | Rating (1–5) | Delta | Key Evidence | One-line Rationale |
|---|---|---|---|---|
| Business Quality | 3 | → | 1.74% Revenue growth; 12% ROCE | Stable demand but limited pricing power and high cyclicality/capital intensity. |
| Financial Health | 4 | → | D/E 0.55x; CFO □90,868 Cr > PAT | Strong cash generation and moderate leverage despite margin pressure. |
| Earnings Quality | 3 | ↓ | CFO > PAT; OPaL restatement | High CFO/PAT ratio offset by inorganic masking and subjective CWIP capitalization. |
| Management & Governance | 3 | → | 27% Independent Board; □27k Cr DSU | Generally compliant but massive RPT guarantees and low board independence. |
| Capital Allocation & Earnings Visibility | 2 | ↓ | ROCE 12% < Prior 18%; □115k Cr CWIP | Reinvesting heavily with declining returns and long lead times for revenue conversion. |

**BUSINESS POSITIVES (for this company this year)** * □**Strong Cash Generation: CFO of □90,868 Cr** significantly exceeds **PAT of □38,329 Cr**, ensuring high liquidity. * □**Self-Funded Growth: CFO/Capex ratio of 2.21x** allows the company to fund **□41,031 Cr** in capex without increasing net debt. * □**Shareholder Returns:** Increased **Dividend Payout to 43%** (□16,985 Cr) despite a decline in net profit. *□**Debt Management: Net Debt reduced by □3,378 Cr** while maintaining a stable **D/E of 0.55x**. * □**Strategic De-risking:** Implementation of **AssetCo structures** for Mozambique to isolate project-specific financial risks.

**BUSINESS NEGATIVES / CONCERNS (for this company this year)** * □**Margin Compression: EBITDA Margin** dropped from **19.46% to 16.69%** due to rising manufacturing costs. * □**Return Dilution: ROCE** fell sharply from **18% to 12%**, reflecting inefficient capital deployment in non-core assets. * □**Massive Contingent Risk: □27,648 Cr Debt Service Undertaking** for Mozambique extends financial exposure to 2033. * □**Capital Lock-up: CWIP of □115,724 Cr** represents a massive portion of the balance sheet not yet generating returns. * □**Subsidiary Bailout: □16,608 Cr** diverted to rescue **OPaL**, highlighting contagion risk from underperforming group entities.

**OVERALL SCORECARD SUMMARY** ONGC remains a cash-flow powerhouse with a robust ability to self-fund massive capital expenditures and dividends. However, the current year shows a deteriorating trajectory in capital efficiency, with ROCE diluting as the company absorbs the high-debt OPaL entity and continues to fund long-gestation international projects. While governance is transparent, the sheer scale of off-balance sheet guarantees and the "Common Control" accounting treatment for acquisitions necessitate caution regarding the true organic growth profile.

## Part B: Governance Check Matrix

| # | Check | Status | Evidence |
|---|---|---|---|
| 1 | Audit opinion clean? | □ | Unqualified opinion by joint statutory auditors. |
| 2 | Promoter pledge = 0? | □ | 0.00% of promoter holding pledged. |
| 3 | KMP pay < 5% of PAT? | □ | Aggregate employee costs are 2.54% of revenue. |
| 4 | RPT quantum < 5% of revenue? | □ | Disclosed RPTs (excl. guarantees) are ~6.3% of revenue. |
| 5 | Board > 50% independent? | □ | Currently 27.27% (3 of 11 directors). |
| 6 | At least 1 woman director? | □ | Ms. Reena Jaitly on the Board. |
| 7 | No statutory dues outstanding? | □ | No major defaults reported in audit notes. |
| 8 | No fraud reported? | □ | No fraud reported by auditors. |
| 9 | Audit trail enabled? | □ | Confirmed in auditor's report. |
| 10 | Frequent Auditor change | □ | 6 joint statutory firms; no frequent changes noted. |
| **Total: 8/10 □— Governance Rating: 3** | | | |

## Part C: Investor Verdict

**THESIS:** ONGC is a cash-rich energy giant transitioning into a diversified energy major, but it is currently hampered by capital-intensive downstream bailouts and long-gestation international project risks. **OVERALL STANCE:** WATCH **RATIONALE:** Strong FCF and dividend yield are offset by declining ROCE and massive off-balance sheet contingent liabilities. **RE-EVALUATE WHEN:** ROCE improves to >15% OR Mozambique project reaches first gas. **BULL CASE:** Successful monetization of the □115,724 Cr CWIP leading to a 5-7% production volume CAGR. **BEAR CASE:** Default or further delay in Mozambique project triggering the □27,648 Cr DSU guarantee. **KEY MONITORABLE:** ROCE: 12% → Watch threshold: <10% or >15%.

# 7. YEAR-OVER-YEAR ANALYSIS

## 7.1 Changes

| Metric / Theme | Summary A Status | Summary B Status | Forensic Takeaway |
|---|---|---|---|
| **Margin Trajectory** | OPM expanded to 17% due to lower raw material costs. | OPM compressed to 15% as manufacturing costs rose to 40% of revenue. | Profitability is currently being eroded by rising operational costs and the consolidation of lower-margin downstream assets. |
| **Capital Allocation (OPaL)** | Treated as a Joint Venture requiring off-balance sheet backstopping and LoCs. | Consolidated as a 95.69% Subsidiary following a ₹16,608 Cr bailout and debt conversion. | The company has shifted from providing contingent credit support to absorbing a struggling entity's full financial and operational risk onto its own balance sheet. |
| **Working Capital (Inventory)** | Inventory days increased to 87, absorbing ₹7,961 Cr in cash. | Inventory days further stretched to 99, with inventory value rising another 9.4%. | Persistent inventory bloating suggests a widening gap between production and off-take efficiency that continues to trap operating liquidity. |
| **Management Tone** | "Pragmatic Urgency" focused on immediate monetization of deepwater assets. | "Calculated and Institutional" focused on long-term structural de-risking and "New Guard" leadership. | The narrative has pivoted from urgent production fixes to a more bureaucratic focus on legal architecture and long-term energy transition. |
| **Dividend Strategy** | Payout ratio of 31% (₹12,895 Cr) to preserve capital for CWIP. | Payout ratio increased to 43% (₹16,985 Cr) despite a 28% decline in Net Profit. | Management is prioritizing higher immediate shareholder yields even as capital efficiency and bottom-line earnings weaken. |
| **Return Profile (ROCE)** | ROCE stood at a robust 18%. | ROCE diluted sharply to 12%. | Capital efficiency has deteriorated significantly as the company absorbs underperforming assets and continues heavy spending on non-core infrastructure. |

## 7.2 Persistent Patterns

- **Cash Flow from Operations (CFO) consistently and significantly exceeds Net Profit (PAT), indicating structurally high earnings quality driven by massive non-cash depletion charges.**
- **A massive capital lock-up remains in Capital Work-in-Progress (CWIP), consistently exceeding ₹1.1 Trillion, reflecting the long-cycle nature and execution delays of major projects.**
- **The Reserve Replacement Ratio (RRR) remains consistently above 1.0, yet this technical success continues to fail to translate into meaningful organic production volume growth.**
- **The Government of India maintains a stable 58.89% stake with zero shares pledged, ensuring high sovereign oversight and a stable, albeit PSU-typical, governance framework.**
- **Geopolitical exposure in high-risk regions (Russia, South Sudan, Mozambique) remains a recurring Key Audit Matter, involving multi-billion dollar contingent liabilities and recovery uncertainties.**
- **Decommissioning obligations for aging brownfields represent a growing, non-discretionary future cash drain that is highly sensitive to subjective discount rate assumptions.**
- **The company remains a "self-funding" entity, where robust CFO consistently covers 100% of massive annual capex requirements and dividend distributions without necessitating net debt increases.**