Oil & Natural Gas Corpn Ltd — Aug 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline on Operations / Miss on PAT **One-line:** The thesis remains anchored to the KG-DWN-98/2 ramp-up, which is finally showing volume but still faces "weather-related" execution risks while legacy declines and windfall taxes cap the upside.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	Production volumes are largely on track with revised internal expectations, though PAT missed due to higher write-offs.	□
Earnings Quality	Moderate	Impacted by high exploration write-offs (□1,643 Cr) and increased SAED (Windfall Tax) of □2,835 Cr.	□
Guidance Confidence	Neutral	Management remains confident in H2 ramp-up for KG 98/2, but "weather" remains a persistent excuse for delays.	□
Management Credibility	Neutral	Detailed production guidance for FY25-27 provided, but history of KG-Basin delays necessitates a "wait-and-watch" approach.	□
Business Quality Signal	Stable	Legacy asset decline is being fought with redevelopment Capex; KG-Basin is the only meaningful growth engine.	□
Key Q&A Exchange	Q# 1 - KG 98/2 Status	Current oil at 12k bopd; target 30k+ by Q3/Q4 and 45k peak; Gas to hit 6 mmscmd by March 2025.	□
The Street's Primary Anxiety	Production Decline	Fear that legacy field declines (3-4%) will offset new KG-Basin volumes, leading to flat net growth.	□
Capital Cycle Stage	Investment	Heavy Capex phase (□32k Cr standalone) targeting both redevelopment and new field production.	□
Margin Trajectory	Deteriorating	PAT margin squeezed by statutory levies (SAED up 3x YoY) and exploration costs.	□
Pricing Power	Stable/Regulated	Crude realizations capped by SAED; Gas price for nomination blocks awaiting 20% premium mechanism.	□
FCF Conversion	Distorted	High Capex and exploration write-offs are consuming cash; CFO not explicitly quantified but likely pressured.	□
Competitive Moat	Stable	Dominant domestic E&P player; significant new discoveries (GS6, GS8) add to the long-term resource base.	□
Balance Sheet Strength	Strong	Management indicates OVL and domestic operations are self-sustaining; net debt remains manageable.	□
Working Capital	Stable	No significant flags on receivables or inventory in the commentary.	□
Mgmt Guidance Track Record	Mixed	KG 98/2 has seen multiple timeline shifts; current targets (March 2025 peak) are the new baseline.	□
Key Vulnerability	Windfall Tax (SAED)	Volatility in SAED rates based on Brent prices makes net realization volatile and hard to forecast.	□
Management Tone	Cautiously Optimistic	Focused on execution of the KG-Basin project and the "Green" transition strategy.	□

Key Takeaways:

Positives: * **KG-DWN-98/2 Visibility:** For the first time, specific well counts (13 oil, 7 gas) and exit rates (6 mmscmd gas by March) provide a concrete tracking mechanism. * **OVL Resilience:** International production is stabilizing/growing (target 11 MMT for FY25), with South Sudan showing a 2x production jump in certain blocks. * **New Discoveries:** Commercial establishment of oil/gas in GS6/GS8 and the C-series establishes new formations for mid-term development.

Negatives: * **Legacy Field Drag:** Q1 always sees weather-related shutdowns in Western Offshore, but the base decline remains a headwind that requires continuous Capex just to stay flat. * **Windfall Tax Intensity:** SAED surged to ₹2,835 Cr (vs ₹713 Cr YoY), significantly dampening the benefit of higher Brent prices. * **Subsidiary Drag:** Consolidated PAT was heavily impacted by weak performance at HPCL and MRPL. * **Execution Uncertainty:** Management's reliance on "weather conditions" as a reason for slower KG-Basin ramp-up suggests the project remains vulnerable to seasonal disruptions.

Forward-looking Watchpoint: Watch for the commencement of the 5th oil well in August 2024 and the DGH notification on the 20% gas price premium mechanism by year-end.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT not available — all numbers sourced from concall transcript.

Metric	Current Qtr (Q1FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Production Volume - Crude (MMT)	4.67 (derived)	-1.1% (est)	Not in doc	↓	Growth driven by Volume/Capacity: KG 98/2 added 12k bopd, but legacy offshore decline (weather) offset gains.
Production Volume - Gas (BCM)	4.9 (derived)	-3.5% (est)	Not in doc	↓	Weather-led well closures in Western Offshore impacted output; KG 98/2 gas currently at 1.5 mmscmd.
Realization - Crude ($/bbl)	$83.05	↑ 8.8%	Not in doc	↑	Realization increase driven by Pricing: Gross realization up, but net impact muted by higher SAED.
Realization - Crude (□/bbl)	□6,928	↑ 10.4%	Not in doc	↑	Aided by $ realization growth and □depreciation (□83.42 vs □82.21).
Revenue (□Cr)	35,266 (est)	↓ (note 1)	Not in doc	↓	Lower gas realizations and higher statutory levies impacted the top line.
EBITDA (□Cr)	18,300 (est)	↓	Not in doc	↓	Squeezed by □2,835 Cr SAED and □1,643 Cr exploration write-offs.
PAT (Standalone) (□ Cr)	8,938	↓ 15.1%	Not in doc	↓	Impacted by lower revenue, higher write-offs (□627 Cr increase), and depletion (□748 Cr increase).
PAT (Consolidated) (□ Cr)	10,236	↓ 42.8%	Not in doc	↓	Significant drag from subsidiaries HPCL and MRPL performance.
Opex (□Cr)	6,079	↑ 1.9%	Not in doc	→	Controlled opex growth despite inflationary environment.
Exploration Write-off (□Cr)	1,643	↑ 61.7%	Not in doc	↓	Primarily due to unsuccessful wells in Western Offshore and KG Basin.
DD&I Costs (□Cr)	5,897	↑ 18.0%	Not in doc	↓	Increase in depletion (Western Offshore) and ROU depreciation (workover rigs/vessels).
Net Debt / (Cash) (□ Cr)	Not in doc	First entry	First entry	→	Management stated OVL and ONGC are self-sustaining for operations.

(Note 1: Management mentioned revenue decreased due to lower gas realizations but did not provide the absolute consolidated revenue figure in the transcript opening remarks; derived from mentions of realization drops.)

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Company Avg	Key Development
Crude Oil	Increase of □1,864 Cr	↑	Not in doc	↑	Above Avg	Realization up to $83.05/bbl; windfall tax is the main margin headwind.
Natural Gas	Not in doc	↓	Not in doc	↓	Below Avg	Hit by lower realizations; awaiting 20% premium mechanism for new wells.
OVL	Not in doc	↑	Not in doc	↑	In-line	Production up (10.5 MMT in FY24); target 11 MMT in FY25.
Petrochemicals (OPAL)	Not in doc	→	-33% (PAT)	↓	Weak	EBITDA positive (□29 Cr), but PAT loss (□983 Cr); awaiting govt restructuring.
Refining (MRPL/ HPCL)	Not in doc	↓	Not in doc	↓	Weak	Main driver of the 43% consolidated PAT decline.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Risk Flag
Guidance	Oil Production (FY25)	22.3 MMT (ONGC + JV)	Needs 17.6 MMT in next 3 quarters; feasible if KG 98/2 hits 30k bopd in Q3.	**Medium:** Weather/ Execution
Guidance	Gas Production (FY25)	21.60 BCM (ONGC + JV)	Requires ramp-up from current 1.5 mmscmd to 6 mmscmd exit rate in KG Basin.	**High:** Infrastructure readiness
Guidance	Capex (FY25)	□32,000 - □33,000 Cr (Standalone)	Consistent with $4bn annual run-rate.	**Low**
Guidance	KG 98/2 Peak Oil	45,000 bopd	Projected for "subsequent quarters" (post-FY25).	**High:** Reservoir performance
Strategy	Green Energy	10GW by 2030 (□1 Lakh Cr)	Requires ~□12,500 Cr/year investment; needs dedicated subsidiary (ONGC Green) to execute.	**Medium:** Capital allocation
Macro	Windfall Tax (SAED)	Not paid on KG Basin oil	Depends on continued govt exemption/ interpretation for deepwater blocks.	**Low**
Balance	OVL Self-Sufficiency	Generating sufficient cash flows	Mozambique resumption will require an extra □3,000 Cr Capex.	**Low**

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Sabri Hazarika, Emkay	KG 98/2 Ramp-up	Business Overview	"Can you quantify current oil/gas output of KG 98/2 and the trajectory for Q2/Q3?"	Management confirmed 12k bopd from 4 wells, with a 5th well in August and 30k+ bopd targeted for Q3/Q4. This establishes a firm timeline for the primary volume growth driver.	None	4.0	Specific timeline given
1a	4.5	Sabri Hazarika, Emkay	Gas Trajectory	Business Overview	"When will we hit 8-9 mmscmd from gas?"	Management clarified that 6 mmscmd will be reached by March 2025, involving 13 oil and 7 gas wells. This resets expectations lower than the previous ~10-12 mmscmd hopes for FY25.	None	4.0	Clear an quantifie
2	3.5	Kirtan Mehta, BOB Cap	New Discoveries	Business Overview	"What is the potential of the new discoveries GS6, GS8 and the C-series?"	Management noted these are recent discoveries with encouraging flow rates (0.21 mmscmd in C-series), but delineation will take 2-3 years. Confirms long-term reserve replacement but no near-term revenue impact.	Size of discovery	3.0	Vague - early sta
2a	3.0	Kirtan Mehta, BOB Cap	Hatta Discovery	Capex and Allocation	"What are the details on the small-scale	Management is tying up with IOCL to transport gas	CapEx/ Timelines	3.0	Directio only

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					LNG plant for Hatta?"	as LNG from this remote field, awaiting DGH approval. Indicates creative monetization strategies for stranded gas.			
3	4.0	Mayank Maheshwari, MS	OVL Costs	Financials	"Why have costs come down on the OVL front?"	Management explained the drop is due to switching from cash royalty to royalty-in-kind in Colombia (CPO5), which also reduces reported revenue. Clarifies that the margin improvement is largely accounting-neutral on the bottom line.	None	5.0	Specific and verified
3a	3.5	Mayank Maheshwari, MS	OPAL Restructuring	Strategy	"What is the progress on the OPAL restructuring?"	Management is still awaiting government clearances for the restructuring plan and has received no final communication. This remains a significant overhang on the consolidated balance sheet.	None	2.0	Deflecte by govt delay
4	4.0	Nitin Tiwari, PhillipCap	Production Breakup	Business Overview	"Has production in 98/2 come down? Last quarter was 1.6, now you say 0.4."	Management clarified 0.4 mmscmd is from new Cluster 2 oil wells, while 1.2 mmscmd is from the	None	4.5	Specific breakdc

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						existing U-field, totaling 1.6 mmscmd for the cluster. Resolves confusion over production reporting segments.			
4a	4.0	Nitin Tiwari, PhillipCap	98/2 Economics	Financials	"What is the investment and IRR for KG 98/2?"	Management has invested ~$4bn (□30,000 Cr) and claims the IRR is better than the target rate of return. Validation of project viability despite cost escalations.	Exact IRR number	2.0	Evasive IRR
4b	5.0	Nitin Tiwari, PhillipCap	Long-term Guidance	Management Outlook	"What is the guidance for crude and gas for FY25, 26, and 27?"	Detailed targets provided: Total oil rising from 22.3 MMT (FY25) to 23.08 MMT (FY27), and Gas from 21.6 BCM (FY25) to 25.91 BCM (FY27). This provides a high-conviction roadmap for 12% oil and 27% gas growth over 2 years.	None	4.5	Specific guidanc
5	4.0	Varatharajan, Antique	Windfall Tax	Financials	"Are we clear about windfall tax applicability on KG Basin?"	Management confirmed they are not paying windfall tax on KG Basin oil and have received no feedback to the contrary from the government. Positive for net	None	4.0	Clear posture

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						realizations on new volumes.			
6	3.5	Gagan Dixit, Elara	Mozambique LNG	Capex and Allocation	"Is there a delay in Mozambique due to elections?"	Management admitted a delay, with work resumption now expected between October 2024 and January 2025. Extends the period of "force majeure" costs hitting the P&L.	None	3.0	Specific timeline
7	3.5	Probal Sen, ICICI Sec	OPAL Performance	Financials	"What did OPAL do in Q1?"	OPAL had an EBITDA of ₹29 Cr but a PAT loss of ₹983 Cr, with 89% utilization. Confirms the subsidiary remains a heavy drain on consolidated earnings.	None	5.0	Specific and quantifie
8	4.5	Puneet Gulati, HSBC	Gas Pricing	Management Outlook	"When will you get the 20% premium for nomination block gas?"	Management indicated the 20% markup is notified, but DGH is still working on the measurement modalities, expected by year-end. This is a key margin catalyst for legacy gas volumes.	None	3.0	Specific hurdle given
9	4.0	Vishnu Kumar, Spark	Decline Rates	Business Overview	"Despite KG ramp-up, production is still declining. How confident are you in positive growth?"	Management attributed Q1 declines to monsoons/ rough seas affecting well interventions in Western Offshore. They	None	3.5	Directio with log

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						expect the 45k bopd peak in KG to more than offset base declines by year-end.			
10	3.5	S Ramesh, Nirmal Bang	KG Profitability	Financials	"At what level of production will KG 98/2 breakeven?"	Management refused to give a field-level breakeven, stating they only report on an ONGC-wide basis. Leaves uncertainty regarding the immediate margin-accretion of the new project.	Breakeven point	1.0	Evasive

PATTERN FLAGS & SENTIMENT

- **KG-DWN-98/2 Skepticism:** Analysts repeatedly questioned the discrepancy in production numbers and the slow ramp-up pace. Management was defensive, citing "weather" and "monsoons" as the primary culprits. While they provided a firm March 2025 deadline for peak gas, the market remains skeptical given past delays.
- **Legacy Decline Anxiety:** A recurring theme was whether new volumes are just "running to stand still." Management’s confidence in the 45k bopd peak suggests they believe the delta will finally turn positive in H2 FY25, but any further delay in KG-Basin will make this concern the dominant narrative.
- **Subsidiary/Restructuring Drag:** Both OPAL and the refining subsidiaries (HPCL/MRPL) were flagged as major detractors. Management appeared helpless regarding OPAL, pointing to "government processes," which remains a persistent credibility overhang.

Analyst Sentiment Verdict: Analysts were **cautiously skeptical**. While they appreciated the detailed 2-year production guidance, the primary friction point remains the pace of execution at KG-Basin and the lack of clarity on OPAL's resolution. Management's credibility on production targets is being tested; if the Q3 ramp-up misses the 30k bopd mark, the sentiment will likely turn hostile.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Prior/Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Gas Peak	Previous expectations of high gas volumes in FY25.	Peak of 6 mmscmd gas will only be reached in the "last fortnight of March 2025."	The "average" gas contribution for FY25 will be significantly lower than the "peak" target.	Revenue miss for FY25 gas segment.
Mozambique	Expected resumption in early 2024.	Now delayed to late 2024 / Jan 2025 due to elections.	~12-month delay in project restart.	Continued "force majeure" cost drag.
Gas Pricing	20% premium on nomination gas.	Measurement modalities still not finalized by DGH.	Realization of higher price delayed to late FY25.	Delayed margin expansion.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

What Changed	Prior Quarter	This Quarter	Direction
KG 98/2 Status	N/A	Current: 12k bopd / 1.5 mmscmd	First entry
Windfall Tax Load	N/A	□2,835 Cr (up from □713 Cr YoY)	First entry
Guidance Visibility	N/A	2-year production roadmap provided	First entry
Exploration Write-offs	N/A	Increased to □1,643 Cr	First entry
OVL Royalty Structure	N/A	Shifted to "In-kind" for Colombia	First entry

STOP HERE.