Oil & Natural Gas Corpn Ltd — Feb 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline on Standalone / Beat on Consolidated (due to Subsidiaries) **One-line:** The thesis transitions from "hope" to "execution" as KG-98/2 finally commences oil production, but structural cost escalations (OpEx) and the massive □19,000 Cr OPaL bailout plan now compete for the cash flow generated by favorable gas pricing.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	Standalone PAT (□9,536 Cr) met expectations; KG-98/2 oil production started at 12k bopd.	□
Earnings Quality	Moderate	Higher exploration write-offs (□2,328 Cr) and one-off OpEx (VAT/LD provisions) impacted margins.	□
Guidance Confidence	Neutral	15% production growth guide over 3 years is ambitious; dependent on Daman Upside and KG plateau.	□
Management Credibility	Neutral	Successfully hit "First Oil" deadline for KG, but dodging specific SAED applicability on new oil.	□
Business Quality Signal	Stable	Core assets are mature but KG-98/2 and high gas price floor ($6.50) provide a structural floor.	□
Key Q&A Exchange	Q4 + OpEx	Analysts pinned mgmt on 25% OpEx spike; mgmt cited "development-heavy" water injection.	□
The Street's Primary Anxiety	OpEx & OPaL	Fear that rising rig rates ($90k/day) and □19k Cr OPaL infusion will erode KG-basin gains.	□
Capital Cycle Stage	Investment	Moving into a higher standalone capex phase (□33,000 Cr - □35,000 Cr per year).	□
Margin / Return Ratio Trajectory	Deteriorating	Standalone EBITDA pressured by GST on Royalty and rising contractual costs.	□
Pricing Power	Stable	Beneficiary of the Kirit Parikh gas floor ($6.5/mmbtu) and 20% premium for new wells.	□
FCF Conversion & Quality	Weak	High capex + □19k Cr OPaL plan + dividend commitments (~41% payout) constrain FCF.	□
Competitive Moat Signals	Stable	Exclusive access to nomination blocks and deepwater infrastructure remains a barrier.	□
Balance Sheet Strength	Strong	Despite OPaL and capex, standalone leverage remains low; consolidated helped by HPCL/MRPL recovery.	□
Working Capital Efficiency	Improving	OVL seeing movement on Venezuela dividends; Russia abandonment obligations being squared off.	□
Mgmt Guidance Track Record	Mixed	Historically optimistic on KG timelines; current "First Oil" delivery restores some trust.	□
Key Vulnerability / Red Flag	OpEx Inflation	Lifting costs rising due to water injection and rig rate resets (up 50-80% from COVID lows).	□
Management Tone	Cautiously Optimistic	Strong focus on production reversal and gas realization kickers ($9-10/mmbtu).	□

Sentiment: □**Neutral**

Key Takeaways (Positives & Negatives): * **Positives:** The pivot to growth is visible—KG-98/2 has finally commenced oil production (12k bopd), and the Daman Upside project is slated to add 1.5 BCM. Gas realizations are set to improve in FY25, with new production eligible for a 20% premium over the ceiling, potentially fetching $9-10/mmbtu. OVL is showing signs of life as Venezuela sanctions ease and Russian abandonment obligations are resolved. * **Negatives:** Operating expenses are structurally higher, with a 25% YoY increase in 9M FY24 driven by a permanent hit from GST on Royalty (~□2,400 Cr/year) and rising rig rates ($70k-$90k/day). The proposed □19,000 Cr equity infusion into OPaL represents a significant capital misallocation risk that could dampen the ROE benefits of the upstream turnaround. * **Forward-looking Watchpoint:** Monitor the "Plateau Maintenance"—management guides for only a 2-year plateau at peak production for KG-98/2, meaning Cluster-1 must execute perfectly by FY28 to prevent a rapid post-2027 production cliff.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

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

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Crude Oil Realization ($/bbl)	81.59	-6.4%	-4.4%	↓	Realization in □terms stood at □6,794/bbl (down 5.1%).
Crude Oil Production (MMT)	~4.7	First entry	First entry	→	Mgmt targets ending FY24 flat or slightly better than FY23.
Gas Production (BCM)	~5.1	First entry	First entry	→	Expecting 1.75 mmscmd from KG-98/2 currently.
KG-98/2 Oil Production (bopd)	12,000	New Asset	New Asset	↑	First load being tied up with MRPL.
Revenue Standalone (□Cr)	34,783	-9.7%	-1.1%	↓	Lower prices of crude oil, natural gas, and VAP.
PAT Standalone (□Cr)	9,536	-13.7%	-6.6%	↓	Impacted by provisions for GST on royalty and dry wells.
PAT Consolidated (□Cr)	10,748	-7.9%	-16.4%	↓	9M consolidated up 65% due to HPCL/MRPL/OVL recovery.
Exploration Write-off (□Cr)	2,328	+44.9%	+24.0%	↓	Unsuccessful wells in Western Offshore and Mahanadi.
OpEx (9M Basis) (□Cr)	18,459	+9.0%	N/A	↓	Driven by contractual payments at KG and water injection.
Standalone Capex (□Cr)	~33,000	+10.0%	N/A	↓	Guided range for FY25: □33,000 Cr to □35,000 Cr.
Dividend per Share (□)	4.00	First entry	First entry	→	Second interim dividend (80%); Total 9M payout ~41%.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Company Avg	Key Development
Standalone E&P	34,783	-9.7%	27.4% (PAT)	↓	Avg	KG-98/2 oil flowing; gas ramp-up by H1 FY25.
OVL (Intl E&P)	Not stated	N/A	Positive	↑	Below Avg	Seeking barrels for Venezuela dividends; Russia div stuck.
HPCL/MRPL	Not stated	N/A	Positive	↑	Below Avg	Primary drivers of 65% 9M Cons. PAT growth.
OPaL	N/A	N/A	N/A	↓	Below Avg	₹19,000 Cr equity infusion plan submitted to Govt.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Volume	15% increase in production by FY26-27	Needs ~5% CAGR; currently production is roughly flat.	Mixed	Moderate
Guidance	KG-98/2 Gas	Start by June/July 2024 (H1 FY25)	Critical for the 15% growth target.	Poor	High
Guidance	Capex Plan	₹33k-35k Cr Standalone (FY25)	Inline with ongoing offshore development projects.	Reliable	Low
Strategy	OPaL	₹19,000 Cr Equity Infusion	Pending Govt approval; massive cash drain.	New	High
Strategy	Gas Pricing	$9-10/mmbtu for new gas	Based on 20% premium over ceiling price.	Reliable	Low
Macro	Rig Rates	Cool down expected in future	Market currently at $70k-90k vs $45k previously.	Evasive	Moderate
Balance	OVL	$1 Bn annual capex (FY25+)	Resumption of Mozambique is the key trigger.	Reliable	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	Varatharajan S. / Antique	Production Growth	Business Overview	Can ONGC sustain production beyond KG-98/2 given legacy declines?	Mgmt targets 15% production growth by FY27, driven by 22 development projects (₹60k Cr outlay). This shift from "arresting decline" to "growth" is the central re-rating trigger for the stock.	Specific breakdown of legacy field decline rates.	4.0	Clear growth guide
2	4.5	Varatharajan S. / Antique	Gas Pricing	Financials	How much gas qualifies for the 20% premium pricing?	Currently only 3-4% of production qualifies, but it is expected to reach 20% of total gas production in 3 years. This provides a clear realization tailwind as older APM gas is replaced by new, higher-priced wells.	None	5.0	Specific tailwind
3	4.0	Amit Rustagi / UBS	KG-98/2 Costs	Capex and Allocation	What is the cost of production and FPSO day rates for KG?	FPSO day rate is ~$718k (incl. GST) and total project capex spent is ~₹28,000 Cr ($5bn total). High fixed costs on the FPSO mean margins will be thin until oil production ramps	Exact DD&A per barrel calculation.	4.0	High fixed costs

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						beyond the current 12k bopd.			
4	4.0	Amit Rustagi / UBS	Rig Rates	Capex and Allocation	How are rising rig rates impacting the cost structure?	New jack-up rates are $70k-$90k/day vs $45k-$50k during COVID; mgmt uses 3-year contracts to blend costs. Rising drilling costs will lag in the P&L but eventually increase finding/development costs per barrel.	Magnitude of upcoming contract resets.	3.0	Cost overhang
5	3.5	Probal Sen / ICICI Sec	Dry Wells	Financials	Do the ₹500 Cr write-offs in Mahanadi impact the reserve assessment?	Mgmt claims dry wells are "expendable investigation" wells and do not change the reserve accretion assessment of development blocks. This isolates the write-off as a P&L hit rather than a fundamental asset impairment.	None	4.0	P&L one-off
6	4.5	Vikash Jain / CLSA	OpEx Spike	Financials	Why is OpEx up 25% for 9M when realizations/volumes are capped?	Increase driven by GST on royalty (₹2.3k-2.4k Cr recurring), water injection (₹224 Cr),	Reconciliation of lifting cost per bbl.	3.5	Margin compression

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						and one-offs like VAT amnesty. Recurring OpEx has stepped up permanently due to taxes and reservoir maintenance, squeezing net realizations.			
7	3.5	Somaiah V / Spark	Non-KG Projects	Business Overview	What else is in the pipeline besides KG-98/2?	Daman Upside (1.5 MMToe), CBM (0.5 MMToe), and Mumbai High Phase V are expected to offset legacy declines. Reliance on "Upside" projects suggests execution risk is spread across multiple smaller offshore assets.	None	4.0	Diversified pipeline
8	4.0	Somaiah V / Spark	OPaL Infusion	Capex and Allocation	What is the status of the OPaL equity infusion?	A plan to infuse ₹19,000 Cr has Board approval and is pending Govt clearance; it is not included in the ₹35k Cr standalone capex guide. This represents a ~₹20/share cash drain that the	Timeline for Govt approval.	3.0	Capital drain

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						market has not fully "priced in" as a one-time hit.			
9	3.0	Sabri Hazarika / Emkay	Windfall Tax (SAED)	Financials	Is SAED applicable on the new KG-98/2 crude?	Mgmt is "getting it reviewed" and preliminary views suggest it may not be applicable, but it is not final. If SAED is waived for new deepwater oil, it would represent a massive ~$10-15/bbl realization boost vs legacy fields.	Definitive confirmation.	2.0	Policy ambiguity

PATTERN FLAGS & SENTIMENT * **The OpEx Anxiety:** Analysts across the board (CLSA, UBS, Emkay) are alarmed by the cost creep. Management's defense—that it's "development-heavy OpEx" (water injection)—suggests that while volumes might grow, the *marginal cost* of producing from maturing reservoirs is rising. This concern remains live and will likely resurface as rig contract resets hit the P&L in FY25. * **The OPaL Overhang:** The ₹19,000 Cr infusion was a quiet "bomb" in the call. While mgmt spoke about upstream growth, the prospect of bailing out a petrochemical subsidiary with nearly two years' worth of standalone profit is a significant governance and capital allocation headwind. Analysts were skeptical, and this will be a primary friction point next quarter.

Analyst Sentiment Verdict: The tone was one of "cautious relief" that KG-98/2 oil has finally flowed, but this was quickly replaced by skepticism regarding the rising cost base. Analysts were unconvinced that OpEx is a "one-off" and seemed frustrated by the lack of clarity on SAED applicability for new oil. Credibility remains stable but hinges entirely on the H1 FY25 gas ramp-up; any delay there would severely damage the "15% growth" narrative.

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5. WHAT CHANGED vs PRIOR QUARTER

Based on Prior Context (Q3 FY23).

What Changed	Prior Quarter	This Quarter	Direction
KG-98/2 Status	Expected "First Oil" by March 2024.	Oil commenced (12k bopd); Gas delayed to H1 FY25.	□(Oil) / □ (Gas)
OpEx Trajectory	Normalizing after COVID.	Structural reset; up 25% (9M) due to GST & water injection.	□
Gas Pricing Tailwinds	Floor/Ceiling in place.	20% premium for new wells quantified (9-10/ mmbtu).	□
OVL - Venezuela	Sanctioned; dividends stuck.	Sanctions eased; seeking barrels for dividends.	□
Capital Allocation	Standard E&P capex focus.	□19,000 Cr OPaL bailout plan announced.	□
Rig Costs	Benefiting from old low-cost contracts.	Resetting to $70k-$90k/day market rates.	□
Consolidated PAT	Impaired by HPCL losses (□12.2k Cr).	65% growth in 9M PAT as HPCL/MRPL recover.	□
Capex Guidance	□30,000 Cr/year.	Raised to □33,000 Cr - □35,000 Cr/year.	□

Investor Note: This quarter materially updates the thesis from "speculative growth" to "early-stage execution." The commencement of KG-98/2 oil validates the reservoir, but the rising OpEx and the □19k Cr OPaL commitment mean the incremental cash flow is already "spoken for." The stock is now a play on the *quantum* of the gas premium realization in FY25. Stay watchful of rig rate escalations in the Western Offshore.