Oil & Natural Gas Corpn Ltd — Feb 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline on Standalone PAT / Beat on KG-Basin Ramp-up **One-line:** The long-term thesis is structurally upgraded from "managing terminal decline" to "growth-oriented energy transition" as management secures a Tier-1 technical partner (BP) for its legacy crown jewel (Mumbai High) and hits 35,000 bopd at KG-DWN-98/2.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Prior Quarter	Beat	Oil production growth accelerated to 1% (standalone) vs 0.8% in H1; KG-Basin hit 35k bopd vs 25k bopd in Q2.	□
Earnings Quality	Moderate	High quality core volume growth, but standalone PAT (□8,240 Cr) was pressured by lower YoY crude realizations ($72.76 vs ~$80).	□
Guidance Confidence	Strong	Management provided clear targets: 44.9 MMTOE (FY26) and 46.2 MMTOE (FY27), backed by 25 major projects.	□
Management Credibility	High	Delivered on the promise to hit 35k bopd at KG Basin and finally closed the BP partnership for Mumbai High.	□
Business Quality Signal	Improving	Pivot to international partnerships (BP as TSP) signals a pragmatic shift to maximize recovery from 70% untapped reserves.	□
Key Q&A Exchange	Q# 2 - BP Deal	Partnership is "service-fee" based with no equity dilution; BP targets 60% baseline production increase.	□
The Street's Primary Anxiety	Renewables Delay	Analysts fear ONGC is "too slow" in Green Energy; Mgmt responded by forming OGL and committing □1 Lakh Cr by 2030.	□
Capital Cycle Stage	Investment	Peak Capex phase (□45,335 Cr in 9M) including OPaL deleveraging; moving toward a harvesting phase by FY26.	□
Margin Trajectory	Improving	Net realization protected by SAED removal and New Well Gas (NWG) pricing (12% of Brent slope).	□
Pricing Power	Expanding	NWG volumes now represent ~10% of gas production, fetching ~$9/ MMBtu vs $6.5 APM cap.	□
FCF Conversion	Distorted	9M FCF is heavily impacted by the □18,365 Cr equity infusion into OPaL.	□
Competitive Moat	Stable	Dominant domestic upstream position strengthened by vertical integration into Petchem (OPaL).	□
Balance Sheet Strength	Adequate	Consolidated Debt/Equity at 0.33x; significantly deleveraged OPaL to sustainable levels.	□
Working Capital	Improving	"Shared Financial Services" (SFS) now pays invoices within 10 days, improving vendor ecosystem health.	□
Mgmt Guidance Track Record	Improving	Meeting ramp-up milestones that were previously chronically delayed (KG Basin, Mumbai High TSP).	□
Key Vulnerability	Brent Price	Sustaining the NWG premium and OPaL's turnaround requires Brent to stay above $70-75.	□
Management Tone	Assertive	Shifted from defensive explanations of decline to offensive targets for production and new energy.	□

Sentiment: □Positive **Key Takeaways:** * **Positives:** The structural decline in standalone production has been reversed (1% growth). The partnership with BP for Mumbai High is a watershed moment, targeting a 60% production uptick over baseline via a fee-based model that preserves ownership. KG-DWN-98/2 has hit 35,000 bopd and is on track for 45,000 bopd by Q4/Q1 FY26. * **Negatives:** Consolidated PAT remains vulnerable to weak refining margins at HPCL/MRPL. The Renewable Energy strategy (1 GW captive) is viewed as "late to the bus" by the Street despite the □1 Lakh Cr commitment. * **The Street's Concern:** High skepticism remains on the speed of OPaL's turnaround. Management countered by highlighting a $5/MMBtu feedstock cost saving through the new 3.2 MMSCMD domestic gas allocation and SEZ exit, aiming for profitability by FY26. * **Watchpoint:** Execution of the BP technical mobilization (March 2025) and the 10 MMSCMD gas peak at KG Basin in mid-2025.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (9M FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Production Volume (MMTOE)	30.81 (incl JV)	↑ 1.0%	↑ 4.8%	□	Volume Growth: Driven by KG-Basin ramp-up and reversing decline in mature fields.
Realization - Crude ($/bbl)	77.10	↓ 3.0%	↓ 5.3%	↓	Pricing: Lower international benchmarks; Q3 realization was $72.76.
Opex/unit (□)	Not in doc	-	-	□	Not explicitly quantified but "all-time high" for offshore equipment.
Standalone Revenue (□Cr)	1,02,842	↓ 5.2%	↓ 3.5%	↓	Lower crude prices offset by slightly higher volumes.
Standalone PAT (□ Cr)	29,162	↓ 4.9%	↓ 16.7%	□	Impacted by lower realizations and higher depreciation (lower reserves).
Consolidated PAT (□ Cr)	Not in doc	↓	↓	↓	Dragged by HPCL/MRPL refining margins; 9M PAT down vs FY24.
Capex (□Cr)	45,335	↑ 80%	↑	□	Surge driven by □18,365 Cr OPaL equity infusion.
Net Debt/Equity (x)	0.33	↓ 17.5%	↓	□	Improving; debt reduced at OVL and OPaL levels.
NWG Gas Volume (MMSCMD)	5.50	First entry	↑	□	10% of gas now fetching NWG premium ($9/MMBtu).
Refining Throughput (MMT)	18.53 (HPCL)	↑ 5.0%	→	□	Highest ever for HPCL; VIZAG expansion supporting volumes.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□Cr)	9M Performance	Margin	Trend	vs Company Avg	Key Development
Crude Oil	~65,000 (est)	Standalone	High	↑	Above Avg	SAED removal significantly improved net realizations despite Brent fall.
Natural Gas	~20,000 (est)	Standalone	Medium	↑	In-line	10% volume migrated to NWG pricing; yields $9/MMBtu.
OVL	6,904	Subsidiary	Low (PAT □365 Cr)	→	Below Avg	Colombia/South Sudan growth offset by Russian fund lock-up ($250M).
Refining (HPCL)	3,48,012	Subsidiary	Compressed	↓	Below Avg	GRM at $4.73/bbl; PAT □4,010 Cr for 9M.
Refining (MRPL)	81,665	Subsidiary	Compressed	↓	Below Avg	GRM at $3.81/bbl; reported 9M PAT loss of □313 Cr.
OPaL	11,079	Subsidiary	Negative	↑	Below Avg	EBITDA loss narrowed to □48 Cr; utilization hit 92%.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Oil Production (FY26)	22.8 MMT (Standalone)	Needs KG Basin to sustain 45k bopd and BP to arrest MH decline.	Improved	Medium
Guidance	Total MMTOE (FY27)	46.2 MMTOE	Requires 10% volume growth over 2 years; feasible with 25 projects.	On-track	Medium
Guidance	Renewables Capacity	10 GW by 2030	Requires adding ~1.5 GW/year; current capacity is only 193 MW.	Poor	High
Strategy	OPaL Turnaround	FY26 Profitability	Requires $5/MMBtu gas saving and SEZ exit completion.	Mixed	High
Strategy	Exploration Acreage	4 Lakh sq km by 2027	Requires doubling current acreage; depends on OALP 9/10 rounds.	New	Low
Macro	Gas Pricing	Convergence to Intl Prices	APM ceiling to rise to $6.75 (Apr '25) and $7.00 (Apr '26).	Reliable	Low
Balance	Debt Reduction	Cons. Debt/Equity 0.3x	On track as OPaL/OVL internal accruals repay loans.	Reliable	Low

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Cred.	Verdict
1	4.0	Sharad Chandra, Mehta Sec	Renewables	Strategy	"Did the strategy just completely failed in the last 10 years? Why not increase debt to invest in green power?"	Management acknowledged the late start but emphasized the creation of ONGC Green (OGL) and the 1 GW captive tender. This signals a shift toward aggressive RTC (Round the Clock) power despite the historical lag.	Specific IRR for Green projects	3.0	Useful context
2	5.0	Nitin Tiwari, PhillipCap	BP Partnership	Strategy	"What are we looking at in terms of production and payment structure for the BP deal?"	Management confirmed a fee-based model where BP receives a share of incremental revenue capped at 25%, targeting a 60% boost in oil/gas from Mumbai High. This preserves PML ownership while introducing global tech, acting as a major production tailwind.	Exact fee percentage	4.0	Clear & quantified
3	4.5	Nitin Tiwari, PhillipCap	Regulation	Strategy	"What are the implications of the Oilfield Development Bill? Does it mean SAED won't return?"	Management suggested the Bill increases fiscal stability to attract foreign majors and noted the likelihood of SAED returning is "1-2%" unless	None	4.0	Directional evidence

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						oil hits $120. This reduces the policy-risk discount on long-term valuation.			
4	4.0	Vivekananda, Ambit	KG Basin	Business Overview	"Would you be able to give us an updated production guidance and the wells that you're opening?"	Management confirmed 13 oil wells are flowing (35k bopd) and 4 more gas wells are coming by mid-year. This confirms the KG Basin ramp-up is real and accelerating toward the 45k bopd peak.	Specific monthly ramp schedule	4.5	Specific timeline
5	3.5	Puneet, HSBC	Renewables	Capex and Allocation	"How should one think about capital allocation between acquiring assets and building afresh for renewables?"	Management intends to achieved 40% of the 10 GW target by the end of this year through inorganic acquisitions and organic JV with NTPC. This implies significant near-term cash outgo for non-core diversification.	Asset acquisition list	3.0	Vague strategy
6	4.5	Probal Sen, ICICI Sec	OPaL	Financials	"After this infusion of □18,000 crore, is there any residual debt? What will change OPaL profitability?"	Management noted debt remains "comfortable" (estimated at □14k Cr previously) and cited the $5/MMBtu saving from new gas allocation and	Specific blended realization	4.0	Detailed defense

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						SEZ exit as catalysts. This clarifies the "fix" for the consolidated earnings drag.			
7	4.0	Vikash Jain, CLSA	NWG Gas	Financials	"How does the recognition of gas moving from old price to new price happen?"	Management explained the NWG is reviewed month-on-month based on new wells/ interventions against a 7.5% baseline decline. This translates to an annual volume migration of ~5 MMSCMD to higher pricing, a recurring EBITDA tailwind.	None	5.0	Formula confirmed
8	4.0	Vikash Jain, CLSA	BP Deal Pricing	Financials	"Whatever is the incremental production with BP... is all of this new well gas?"	Management confirmed all incremental production from BP interventions qualifies as NWG pricing. This doubles the benefit: higher volumes PLUS higher realizations on those specific barrels.	None	5.0	Clear and quantified

PATTERN FLAGS & SENTIMENT * **The "Decline Reversal" Narrative:** For the first time in years, management is no longer apologizing for production dips. The combination of KG-Basin execution and the BP deal has turned their posture offensive. Analysts remain focused on the *cost* of this growth (offshore equipment inflation), but the volume skepticism has materially eased. * **OPaL Capital Allocation:** This remains the primary point of friction. Analysts are wary of the □18k Cr infusion. Management was highly defensive but logical, framing it as a "necessary restructuring" to stop the interest drain and leverage low-cost feedstock. * **Analyst Sentiment Verdict:** Analysts were **cautiously convinced** on the upstream turnaround but **skeptical** on the renewable energy timeline. The BP deal is the biggest credibility booster this quarter. However, the consolidated drag from refining and the massive Capex on OPaL prevent a full bullish pivot until FY26 profitability is visible.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Renewables Speed | "10 GW by 2030" | "Started a bit late" | Acknowledged they missed the "first-mover" advantage. | Lower initial IRRs vs peers. | | KG Gas Ramp | "March '25 completion" | "Middle of the year" (Aug/Sept) | Hook-up activities delayed by East Coast weather/sea-state. | Delay in peak gas revenues. |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2 FY25)	This Quarter (9M FY25)	Direction
KG Basin Oil	25,000 bopd	35,000 bopd	↑
Mumbai High Strategy	Internal operations	BP appointed as Technical Service Provider	↑
OPaL Status	Associate	95.69% Owned Subsidiary	→
Production Growth	0.8% (H1)	1.0% (9M Standalone Oil)	↑
NWG Gas Billing	Just started (~4.7 MMSCMD)	Scaled to 5.5 MMSCMD	↑
Debt Equity (Consol)	0.40x	0.33x	□
Management Tone	Transitionary/Defensive	Active Growth/Strategic Alliances	↑
Capex (9M)	□24,000 Cr	□45,335 Cr (OPaL infusion impact)	□

STOP HERE.