Oil & Natural Gas Corpn Ltd — Feb 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Standalone Inline | Consolidated Beat (driven by Subsidiaries) **One-line:** The multi-year production decline has officially reversed (Oil +1.2%), while the structural de-risking of OPaL (EBITDA positive) and Mozambique (Force Majeure lifting) removes the primary "value trap" overhangs.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	Standalone oil production (+1.2% YoY) met expectations; FY26 volume guidance slightly trimmed.	□
Earnings Quality	Moderate	Standalone PAT hit by □1,045 Cr FX loss and lower treasury income (□1,462 Cr); core E&P realization down on Brent.	□
Guidance Confidence	Neutral	Management pushed peak KG-98/2 targets into Q1 FY27 (June-July 2026) citing logistical delays in living quarters.	□
Management Credibility	Strong	Successfully turned OPaL EBITDA positive (□225 Cr) and is on the verge of restarting the Mozambique project.	□
Business Quality Signal	Improving	Reversal of secular decline in oil and arresting of gas decline is now systemic, not a one-off event.	□
Key Q&A Exchange	Q# 1 & 16 - Timelines	Mgmt admitted H2 FY26 production shifts into Q1 FY27; Daman Upside (5 mmscmd) remains the strategic bridge for Q4.	□
The Street's Primary Anxiety	Project Timelines	Skepticism regarding the KG-98/2 ramp-up; mgmt responded with firm installation dates (Dec/Jan) for the living quarters.	□
Capital Cycle Stage	Investment	E&P Capex maintained at □30,000-35,000 Cr; Renewables (10 GW by 2030) shifting to organic asset building.	□
Margin / Return Ratio Trajectory	Improving	New Well Gas (NWG) now 21% of gas revenue, fetching a 20% premium over the APM price ($6.75 ceiling).	□
Pricing Power	Stable	Realization benefited from the ceiling price hike ($6.5 to $6.75) and a rising NWG mix (13.4% of volume).	□
FCF Conversion & Quality	Weak	High capex and deferred production keep FCF under pressure, though partially offset by □6/share dividend.	□
Competitive Moat Signals	Widening	Strategic BP tie-up for Mumbai High is already showing operational "green shoots" ahead of 2027 performance fees.	□
Balance Sheet Strength	Adequate	OPaL debt (□25,188 Cr) addressed via lower interest rates; Mozambique funding to shift to project finance.	□
Working Capital Efficiency	Stable	Inventory costs (LNG at Dahej) spiked but remained manageable within consolidated subsidiary results.	□
Mgmt Guidance Track Record	Mixed	Accurate on subsidiary turnarounds; struggling with precise offshore logistical timelines (KG Basin).	□
Key Vulnerability / Red Flag	Offshore Logistics	Thesis-critical peak production (10 mmscmd Gas) is sensitive to 2-3 month weather/installation windows.	□
Management Tone	Assertive	Shifted from defensive "decline arrest" to offensive "growth and cost optimization" (□5,000 Cr target).	□

Sentiment: □Positive

Key Takeaways: * **Positives:** The fundamental turnaround is real: standalone oil production grew 1.2% in H1, confirming the reversal of years of decline. New Well Gas (NWG) is a powerful margin lever, now contributing 21% of gas revenue at a premium price. OPaL has finally crossed into EBITDA-positive territory (□225 Cr) without further equity infusion, and the imminent lifting of Force Majeure in Mozambique restores a massive "stranded" asset to the valuation model. * **Negatives:** Logistical bottlenecks (Living Quarters installation) in the KG-98/2 project have pushed peak production targets by one quarter into early FY27. Standalone profits are currently sensitive to non-operating items like FX losses (□1,045 Cr). * **The Street's Concern:** Analysts are wary of FY26 volume targets. Management de-risked this by clarifying that the Daman Upside (DUDP) project is ahead of schedule (Q4 FY26 start) and will bridge the revenue gap at premium NWG pricing. * **Watchpoint:** Commissioning of the Living Quarters in the KG basin by January 2026 and the formal lifting of Mozambique Force Majeure.

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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
Production Volume - Oil (MMT)	4.630	↑ 1.2%	↑	□	Growth driven by arresting decline in legacy fields and KG Basin contributions.
Production Volume - Gas (BCM)	5.080	→ (0.04% ↓)	↑	□	Effectively arrested secular decline; growth expected from NWG wells in Daman/DSF.
Realization - Crude (Standalone)	$67.34/ bbl	↓ 14.0%	↓	□	Realization dropped from $78.33/bbl in Q2FY25 due to softening global benchmarks.
Opex/unit (Crude - Standalone)	□44,043/ MT	↓ 10.4%	↓	□	Lower statutory levies (SAED abolition) significantly reduced per-unit costs.
Net Debt (OPaL)	□25,188 Cr	↓	↓	□	Targeting 1% interest rate reduction; management stated no further equity is required.
Revenue (Standalone)	□34,000 Cr	↓	↓	□	Crude revenue down □1,340 Cr; Gas revenue up □1,006 Cr (offsetting partially).
PAT (Standalone)	□9,848 Cr	↓ 17.8%	↓	□	Impacted by realization, FX loss (□1,045 Cr), and lower treasury income (□1,462 Cr).
PAT (Consolidated)	□12,615 Cr	↑ 28.2%	↑	□	Growth entirely attributed to HPCL and MRPL subsidiary performance.
Capex (Annual Plan)	□30,000 Cr	→	→	→	Core E&P Capex remains stable; Renewables may add □5,000-10,000 Cr.
New Well Gas Revenue	□3,352 Cr	↑	↑	□	H1 performance; now 21% of nomination field gas revenue; share increasing.
Interest Coverage	Not in doc	-	-	-	Mgmt noted debt refinancing will improve coverage at OPaL level.
Working Capital	Stable	→	→	→	DSO/DIO within historical norms; inventory spike at subsidiaries managed.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	H1 Perf	Margin	Trend	vs Avg	Key Development
Western Offshore	Not in doc	High	High	↑	Above	WO-16 field and MH redevelopment (BP tie-up) driving growth.
Eastern Offshore	Not in doc	28k bpd oil	Medium	→	In-line	KG-98/2 at 3 mmscmd gas; Living Quarter install in Dec/Jan is critical path.
Onshore	Not in doc	Mature	Lower	↓	Below	Mature fields (60+ yrs) more expensive to operate; margins under pressure.
OPaL (Petchem)	Not in doc	EBITDA +ve	Improving	↑	Below	Crossed EBITDA threshold (□225 Cr) this quarter; utilization to hit 90%+.
OVL (Internat.)	Not in doc	4.8 MMTOE	Mixed	→	Below	Sakhalin stable; Vietnam exit (Block 06.1) finalized due to economics.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Oil Prod (FY26)	19.8 - 20.0 MMT	Requires ~10.5 MMT in H2; current H1 is 9.3 MMT. High ramp needed from KG Basin.	Improved	Medium
Guidance	Oil Prod (FY27)	21.0 MMT	High dependency on KG-98/2 reaching 45k bopd peak.	On-track	Medium
Guidance	Gas Prod (FY26)	~20.0 BCM	Daman Upside (5 mmscmd) in Q4 is critical to bridge KG delay.	On-track	Medium
Strategy	Cost Optimization	□5,000 Cr OpEx cut	Targeting logistics (Pipavav/Surat) and dual-fuel rigs.	New	Low
Strategy	OPaL Recovery	Continuous EBITDA +ve	Requires 90%+ utilization and stable petchem spreads.	Improved	Medium
Macro	Gas Pricing	Premium Migration	Targeting 14% volume share from NWG (currently 13.4%).	Reliable	Low
Strategy	OVL / Mozambique	Commissioning '27-28	Depends on FM lifting "in a couple of days."	Improved	Medium
Guidance	Capex	□30,000-35,000 Cr	Consistent with historical E&P intensity.	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	Probal Sen, ICICI Sec	Guidance	Financials	"H1 run rate suggests downside risk to the 21 MMT oil and 21.5 BCM gas guidance. Is that fair?"	Management admitted a shift of some production into next year, revising FY26 oil expectations to ~19.8-20 MMT. This indicates a minor delay in harvesting new reserves but maintains the long-term volume trajectory.	None	4.0	Specific guidance revision
2	4.5	Probal Sen, ICICI Sec	KG Basin	Business Overview	"What is the run rate of KG right now and the exit rate for gas and oil?"	Current oil is 28,000 bpd and gas is 3 mmscmd, with living quarters to be installed in Dec-Jan for a Q4 ramp-up. This delay in the compressor/ living module pushes peak gas revenue into early FY27.	None	4.5	Specific timelines
3	4.0	Probal Sen, ICICI Sec	OPaL	Financials	"How should we look at the OPaL run rate for the next two quarters? Can we expect similar EBITDA?"	Management expects 90% + capacity utilization and positive EBITDA to continue given current petchem pricing. This signals the end of OPaL as a cash-drain for the consolidated	None	4.0	Clear and quantified

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						balance sheet.			
5	4.0	Sabri Hazarika, Emkay	Cost Cut	Strategy	"How will the 15% cost reduction translate to the P&L? Does it mean ₹8,000-9,000 Cr?"	Management is targeting a specific ₹5,000 Cr reduction in OpEx through logistics optimization (Pipavav port) and fuel switching on rigs. This provides a structural buffer against any potential softening in crude prices.	None	4.5	Clear and quantified
8	5.0	Varatharajan, Antique	Mozambique	Strategy	"What is the official version of the Mozambique Force Majeure (FM) status?"	All partners have decided to lift FM, with a formal ballot expected in a couple of days. Lifting FM allows the project to move to project financing, reducing equity strain on OVL.	Specific ballot date	4.0	Directional evidence
14	4.5	Gagan Dixit, Elara	BP Tie-up	Strategy	"What are the milestones for Mumbai High (BP tie-up) and when does the performance fee start?"	The technical plan will be finalized by Dec 2025, with green shoots visible from Jan 2026; performance incentives begin Jan 2027. This confirms the legacy	Specific well counts	4.0	Specific timeline

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						portfolio is being managed with tier-1 global expertise.			
18	4.0	Ramesh S	NWG Growth	Business Overview	"What is the production profile of new well gas to peak over 10-15 years?"	Daman and DSF-II projects will add 9 mmscmd of NWG in the short term, taking the NWG share of total production to 35% in 3-4 years. This confirms a structural migration of the gas portfolio to higher-realization pricing.	15-year profile	3.5	Directional evidence
24	4.0	Somaiah V, Spark	OPaL Finance	Financials	"Any further equity infusion required for OPaL and what is the debt level?"	Debt stands at □25,188 Cr with no further equity required; mgmt is refinancing to cut interest by >1%. This de-risks the consolidated balance sheet.	None	4.5	Specific data point
31	4.5	Somaiah V, Spark	KG Peak	Business Overview	"When do we expect peak production of 10 mmscmd gas and 45k bpd oil in KG?"	Gas ramp-up to 10 mmscmd starts June-July 2026 (FY27); oil peak timing is "work in progress" based on current well	Oil peak date	2.5	Vague/ Hedged

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						interventions. This signals a slower-than-hoped ramp in oil vs gas.			

PATTERN FLAGS & SENTIMENT

Analysts were hyper-focused on the slight downward revision of FY26 targets. Management's posture was confident, framing the shift as a "logistical deferment" (living quarters) rather than a reservoir failure, and highlighted the Daman Upside project as a strategic counterbalance.

There is a palpable shift in sentiment regarding OPaL and Mozambique. Analysts were previously skeptical about further "black hole" equity infusions; management's firm "no further equity" stance for OPaL and the shift to project finance for Mozambique significantly improved their credibility.

Analyst Sentiment Verdict: Analysts were **guardedly optimistic**. While pleased with the standalone production turnaround (+1.2% Oil) and the subsidiary recovery, they remain wary of offshore execution delays in the KG basin. The single unresolved issue is the **precise peak for KG Basin oil**, which management avoided quantifying precisely.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
FY26 Oil Volume	~21 MMT (implied)	~19.8 - 20.0 MMT	Revised down by ~1 MMT due to offshore logistical delays.	Minor H2 FY26 earnings impact.
KG Gas Peak	End of FY26	Q1/Q2 FY27 (June-July)	Peak 10 mmscmd pushed by 3-6 months due to module installation.	Delayed revenue from deepwater gas.
KG Oil Peak	45k bpd	"Work in progress"	Management is no longer sticking to a firm timeline for the 45k bpd oil peak.	Slower than expected oil volume recovery.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY26)	This Quarter (Q2 FY26)	Direction
Oil Production Growth	Arrested decline (0.9% growth)	Accelerated to 1.2% growth in H1	↑
New Well Gas Revenue	~20% of gas revenue	Increased to 21% of revenue	↑
OPaL Profitability	Restructuring phase	EBITDA Positive (□225 Cr)	↑
Mozambique Status	Stalled (Force Majeure)	Lifting FM "in a couple of days"	□
FY26 Volume Target	~21 MMT Oil	Trimmed to ~19.8-20 MMT	↓
KG Gas Timeline	Q4 FY26 Peak	June-July 2026 (Q1 FY27) Peak	↓
Cost Strategy	General efficiency focus	Specific □5,000 Cr OpEx target	↑
Management Tone	Cautiously Optimistic	Assertive on Project Timelines & Costs	↑

STOP HERE.