Oil & Natural Gas Corpn Ltd — May 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline on Operations / Beat on Consolidated PAT **One-line:** The multi-year production decline has officially bottomed with crude production rising 4.3% in Q4, but the thesis remains a "show-me" story as structural OpEx increases and a massive □18,300 Cr OPaL bailout plan compete for free cash flow.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	Standalone Q4 PAT □9,869 Cr; Crude production reversal (4.3% YoY) met recent optimism.	□
Earnings Quality	Moderate	PAT boosted by a lack of one-off GST hits vs last year, but Q4 saw □700-800 Cr interest hit for settlement schemes.	□
Guidance Confidence	Neutral	FY27 target of 47 MMtoe is aggressive (requires 6% CAGR vs historical -2% CAGR); relies heavily on KG-98/2.	□
Management Credibility	Neutral	Delivered "First Oil" in KG-98/2, but gas ramp-up remains back-ended to Q3/Q4 FY25.	□
Business Quality Signal	Improving	Transition from "arresting decline" to "volume growth" for the first time in a decade.	□
Key Q&A Exchange	Q1 + OpEx	Analysts focused on the OpEx jump (7.2% YoY); mgmt cited structural repairs and one-off settlements.	□
The Street's Primary Anxiety	OPaL Drain	Fear that □18,300 Cr infusion into loss-making OPaL will dilute the benefits of the upstream turnaround.	□
Capital Cycle Stage	Investment	Entering a heavy offshore execution phase (□33,000 Cr - □35,000 Cr annual capex).	□
Margin / Return Ratio Trajectory	Stable	Realizations are capped by SAED, but Kirit Parikh gas floor ($6.5) protects downside.	□
Pricing Power	Stable	20% premium for new gas production is a clear positive catalyst being finalized with DGH.	□
FCF Conversion & Quality	Weak	High capex + OPaL plan + heavy dividend payout (□15,411 Cr) leaves little room for debt reduction.	□
Competitive Moat Signals	Stable	Unrivaled infrastructure in KG and Western Offshore basins remains the core moat.	□
Balance Sheet Strength	Strong	Standalone leverage remains low despite subsidiary challenges.	□
Working Capital Efficiency	Improving	Inventory build in KG-98/2 FPSO noted; OVL seeing better visibility on production in Sudan/Colombia.	□
Mgmt Guidance Track Record	Mixed	Improved reliability on production; timeline for OPaL and KG gas remains slightly fluid.	□
Key Vulnerability / Red Flag	OpEx Inflation	Structural repairs post-cyclone and rising rig rates are raising the cost of production.	□
Management Tone	Cautiously Optimistic	Strong emphasis on "highest ever" profits and reversing the decline curve.	□

Sentiment: □**Neutral**

Key Takeaways (Positives & Negatives): * **Positives:** The pivot to growth is finally visible as crude oil production grew 4.3% in Q4 FY24. Management provided a clear roadmap to 47 MMtoe by FY27 (a 20% increase over 3 years). KG-98/2 oil production has reached 12,000 bopd and is slated to hit 45,000 bopd by Q4 FY25. The 20% premium on gas from well interventions ($~9-10/mmbtu) offers a significant margin tailwind. * **Negatives:** Operating expenses are rising structurally, with Q4 seeing a □700-800 Cr hit from Vivad se Vishwas settlements and □160 Cr for VAT amnesty. The proposed □18,300 Cr equity infusion into OPaL represents a major capital misallocation risk, as the asset remains EBITDA negative (□479 Cr loss in FY24). * **Forward-looking Watchpoint:** The market is awaiting DGH finalization of the 7.5% decline rate threshold for premium gas pricing. If finalized as guided, ~25% of total gas could qualify for $10/mmbtu pricing by FY26, creating a substantial earnings step-up.

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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 (MMT Oil)	4.7 (Est.)	↑ 4.3%	→	↑	Growth driven by standalone reversal and KG-98/2 start.
Production Volume (BCM Gas)	~5.0	↓ 3.0%	→	↓	Natural decline in mature fields; offset expected from H2 FY25.
Realization Crude ($/bbl)	80.81	↑ 4.8%	↓ 1.0%	→	In Rupee terms: □6,709/bbl (up 5.8% YoY).
Realization Gas ($/mmbtu)	6.50	→	→	→	Floor protected by Kirit Parikh recommendations.
Revenue Standalone (□ Cr)	34,637	↓ 4.4%	↓ 0.6%	↓	Impacted by lower annual average crude and gas prices.
EBITDA Margin (%)	Not Stated	N/A	N/A	→	Impacted by □901 Cr one-off expenses in Q4.
PAT Standalone (□Cr)	9,869	↑ 1,769%	↑ 3.5%	↑	Comparison skewed by last year's □9,285 Cr GST provision.
PAT Consolidated (□Cr)	11,527	↑ 77.9%	↑ 7.2%	↑	Strong contribution from HPCL and MRPL subsidiaries.
Standalone Capex (□Cr)	37,000 (FY)	↑ 22.5%	N/A	↓	Highest ever; includes one-offs like settlement payments.
OpEx (Annual) (□Cr)	26,725	↑ 7.2%	N/A	↓	Driven by water injection, repairs, and CSR.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Avg	Key Development
Standalone E&P	34,637	↓ 4.4%	~28%	→	High	KG-98/2 oil flowing; 11 new discoveries in FY24.
ONGC Videsh (OVL)	Not Stated	N/A	Positive	↑	Mid	Production up to 10.5 MMtoe; Sudan producing 64k bopd.
OPaL (Petrochem)	Not Stated	N/A	Negative	↓	Low	EBITDA negative ₹479 Cr; Loss at PAT ₹3,456 Cr.
HPCL/MRPL	Included in Cons	N/A	Strong	↑	Mid	Primary drivers of the 67.7% annual Cons PAT growth.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Volume	47 MMtoe production by FY27.	Needs 6% CAGR; current run-rate is flat-to-negative.	Mixed	High
Guidance	Oil Price	Net realization around $75-76/bbl.	Dependent on SAED/Windfall tax levels.	Reliable	Low
Guidance	KG-98/2 Gas	10 mmscmd by Q4 FY25.	Requires massive ramp-up from current 2.4 mmscmd.	Delayed	High
Guidance	Capex	₹33,000 - ₹35,000 Cr for FY25.	Inline with ongoing offshore projects.	Reliable	Low
Strategy	OPaL	₹18,300 Cr equity infusion plan.	Pending CCA/Govt approval; massive cash drain.	New	High
Strategy	Gas Premium	20% premium on "new" gas.	~25% of gas could qualify by FY26.	Developing	Moderate
Macro	Rig Rates	No shortfall in jack-up rigs.	Currently operating 37 jack-ups + 2 floaters.	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	4.5	Probal Sen / ICICI	OpEx Spike	Financials	"Why have the other operating expenses gone up so sharply... at a Q-o-Q level?"	Management attributed the □901 Cr spike to VAT amnesty (□160 Cr), Vivad se Vishwas interest (□170 Cr), platform repairs post-cyclone, and Assam asset maintenance. Investors should view these as largely one-off, suggesting normalized OpEx will be lower in H1 FY25.	Specific breakdown of repairs at Assam asset.	4.0	Detailed breakout
2	4.0	Probal Sen / ICICI	Capex Run-rate	Capex and Allocation	"Is FY25 building this kind of (□37k Cr) run rate or should it normalize?"	Management clarified that FY24 was inflated by □2,000 Cr of one-off settlement capitalizations and guided for a normalized range of □33,000-35,000 Cr. Lower capex intensity improves the free cash flow outlook for dividend sustainability.	None	5.0	Specific guidance
3	5.0	Mayank M / MS	KG-98/2 Timeline	Management Commentary	"What are the timelines for KG-98/2 ramp up in fiscal '25 and '26?"	Management expects oil to jump from 12k to 20k bopd in Q3 and hit 45k bopd in Q4 FY25, with gas hitting 10 mmscmd simultaneously. This back-	None	4.0	Clear timelines

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						ended ramp-up means volume-led earnings growth is a H2 FY25 event.			
4	4.5	Mayank M / MS	OPaL Restructuring	Capex and Allocation	"Where are we (on OPaL restructuring) and how you should think about that going forward?"	Management has applied for CCA approval for an 18,000 Cr investment to convert CCDs and warrants into equity and exit the SEZ status. This restructuring will reduce interest costs but remains a significant capital commitment to a currently loss-making asset.	Exact date for Govt approval.	3.0	Regulato depende
5	4.0	Nitin Tiwari / Phillip	HPHT Production	Business Overview	"What is your current HPHT production of natural gas in the entire production?"	Total HPHT gas is currently 0.8 mmscmd from G-1 and S-1 Vashishta fields. Increasing high-yield HPHT gas is crucial as it fetches ~$9.87/ mmbtu vs the $6.5 ceiling for legacy gas.	None	5.0	Quantifie data
6	4.0	Sabri H. / Emkay	Gas Premium	Financials	"Has there been any update in terms of implementation of... premium gas pricing?"	DGH is finalizing modalities to quantify "incremental" gas above a 7.5% decline rate for the 20% premium. This creates a margin kicker	None	4.0	Direction update

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						for nearly 25% of total gas production starting FY26.			
7	3.5	Sabri H. / Emkay	Seismic Survey	Financials	"Was there some sort of capitalization which happened (for seismic surveys)?"	Management changed policy to capitalize OBN seismic survey costs (□1,700 Cr in FY24) as they directly assist in accelerating production from discovered fields. This accounting shift inflates reported capex but reduces immediate P&L OpEx.	None	5.0	Accounti clarity
8	4.0	Vikash Jain / CLSA	Depletion Rate	Financials	"Depletion seems to have jumped up... Is it something linked to reserve adjustments?"	Depletion rose due to □16,000 Cr in new asset capitalizations and a change in the reserve-to-production mix (□1,250 Cr impact). Higher depletion will likely persist as KG-98/2 comes online, acting as a non-cash drag on PAT.	Exact depletion per barrel for KG fields.	3.0	Vague o specifics
9	4.5	Vikash Jain / CLSA	Windfall Tax	Financials	"Is windfall tax not being applicable for KG-98/2... IRRESPECTIVE of production levels?"	Management stated they have a legal opinion that KG-98/2 production is not subject to SAED/windfall tax. If verified, this provides a massive $10-12/bbl	Official Govt confirmation.	2.5	Legal interpreta

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						realization advantage over legacy fields.			

PATTERN FLAGS & SENTIMENT * **The OPaL Overhang:** Analysts are clearly frustrated by the ongoing drain from OPaL. Management's push for a massive □18,300 Cr equity infusion is seen as a necessary "cleanup" to save interest costs, but the fact that the unit remains EBITDA negative (even before interest) suggests structural issues remain unresolved. * **Production Skepticism:** While "First Oil" was cheered, analysts repeatedly pressed on the ramp-up speed. Management's back-ended guidance (Q4 FY25 peak) suggests the market may have to wait another 9-12 months to see the true earnings power of the East Coast assets. * **Cost Creep:** The jump in "Other Expenses" is being monitored closely. While management labeled many items as one-offs, the underlying trend of higher platform repairs post-cyclone and increased water injection costs indicates the cost of maintaining aging legacy reservoirs is trending up permanently.

Analyst Sentiment Verdict: Analysts are cautiously constructive. They are giving management credit for reversing the production decline, but are applying a "valuation discount" due to the OPaL capital allocation and the lack of clarity on when the 20% gas premium will finally hit the invoices.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter	This Quarter	Direction
KG-98/2 Oil Status	In progress; "First oil" awaited.	Commenced; 12,000 bopd current production.	□
Production Growth	Guided for stabilization.	Confirmed growth (Oil up 4.3% in Q4); Reversal of a multi-year trend.	□
Capex Guidance	□30,000 Cr - □32,000 Cr.	Raised to □33,000 Cr - □35,000 Cr (Excluding OPaL).	□
OPaL Strategy	Intent to restructure.	Board approved □18,300 Cr infusion; pending Govt approval.	□
Gas Pricing Kicker	Concept of "well intervention" premium.	Modalties defined (7.5% decline threshold) with DGH.	□
One-off Costs	Normal operational profile.	High impact from Vivad se Vishwas and VAT Amnesty (~□1,000 Cr).	□
OVL Outlook	Sudan production concerns.	Rebound to 10.5 MMtoe; Sudan producing strongly (64k bopd).	□

Investor Note: The thesis is transitioning from "Asset Development" to "Volume Harvest." The critical catalyst for the next 12 months is not oil price (which is capped by SAED) but the execution of the KG-98/2 gas ramp-up to 10 mmscmd. If the OPaL bailout is approved, expect a temporary ROE dip, but the long-term story remains supported by the highest production visibility in a decade.