Oil & Natural Gas Corpn Ltd — May 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Standalone Inline (ex-Write-offs) | Consolidated Miss **One-line:** The long-term thesis is structurally de-risked as the "decline reversal" moves from a promise to a multi-quarter reality, and the perennial OPaL overhang is finally neutralized via restructuring and a 40% reduction in feedstock costs.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	Standalone oil production grew 0.9% YoY; standalone PAT (□35,610 Cr) impacted by specific dry well write-offs.	□
Earnings Quality	Moderate	PAT pressured by □9,826 Cr exploration write-off (nearly double YoY); underlying E&P cash flow remains robust.	□
Guidance Confidence	Strong	Management provided specific volume targets for FY26 (21.5 MMT Oil, 21 BCM Gas) with 2-3 year visibility.	□
Management Credibility	Strong	Delivered on OPaL restructuring (SEZ exit/Equity/Feedstock) and BP technical mobilization on schedule.	□
Business Quality Signal	Improving	Reversal of secular oil production decline (first time in years) and scale-up in Renewables (0.2 to 2.5 GW).	□
Key Q&A Exchange	Q# 1 - KG Gas	Gas platform delayed by living quarter installation; 6-7 mmscmd delayed to mid-FY26 but offset by DUDP project.	□
The Street's Primary Anxiety	OPaL Viability	Mgmt confirmed $5/MMBtu feedstock saving and □700-800 Cr/year SEZ benefit, aiming for imminent turnaround.	□
Capital Cycle Stage	Investment	Peak Capex (□62,000 Cr in FY25); OPaL restructuring complete; moving toward harvesting new fields (KG/Daman).	□
Margin / Return Ratio Trajectory	Improving	New Well Gas (NWG) now 20% of volumes fetching ~$8/MMBtu vs $6.5 APM cap.	□
Pricing Power	Expanding	Selling KG crude at a premium to Brent; 10-15% of gas volumes migrating to NWG pricing annually.	□
FCF Conversion & Quality	Distorted	Capex and equity infusions (□18k Cr into OPaL) consuming massive cash, but core oil production is FCF positive.	□
Competitive Moat Signals	Widening	Dominance in domestic offshore strengthened by tier-1 technical tie-ups (BP) and integrated Petchem value chain.	□
Balance Sheet Strength	Adequate	Cons. PAT dragged by subsidiaries (HPCL/MRPL), but OPaL leverage is now significantly addressed.	□
Working Capital Efficiency	Stable	Inventory/Trade receivables managed well; focus shifted to "Shared Financial Services" efficiency.	□
Mgmt Guidance Track Record	Improving	Meeting production milestones in KG oil and offshore drilling targets (578 wells).	□
Key Vulnerability / Red Flag	Brent Price	Thesis remains sensitive to Brent staying >$75 to sustain NWG premiums and OPaL margins.	□
Management Tone	Assertive	Shift from "arresting decline" to "becoming a formidable force" in renewables and growth assets.	□

Sentiment: □Positive

Key Takeaways: * **Positives:** The multi-year production decline has officially bottomed; FY25 standalone oil grew 0.9%, a critical structural milestone. The OPaL "fix" is complete: an □18,000 Cr equity infusion, SEZ exit (□700-800 Cr annual boost), and a massive reduction in gas cost (APM/NWG mix vs market) creates a clear path to profitability. The BP partnership for Mumbai High is now live, providing a technical floor for the legacy portfolio. Renewables capacity reached 2.5 GW (vs 0.2 GW YoY), meeting the 2030 scale target's first leg ahead of expectations. * **Negatives:** Exploration write-offs (dry wells) of □9,826 Cr hit the bottom line significantly this year. KG-98/2 gas production is seeing minor delays due to living quarter installation on the platform, shifting peak 10 mmscmd output further into FY26. Consolidated earnings remain volatile due to refining subsidiary underperformance (HPCL/MRPL). * **The Street's Concern:** Skepticism regarding the timeline for peak KG-Basin gas. Management countered by pointing to the "DUDP" project in Western Offshore (5 mmscmd by Q4FY26) which effectively bridges any near-term KG gap at New Well Gas pricing. * **Watchpoint:** Execution of the Ethane sourcing strategy for OPaL in 2028 and the removal of force majeure in Mozambique.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *DATA SOURCE: PPT not available — all numbers sourced from concall transcript.*

Metric	Current Qtr (FY25 Full Year)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Production Volume - Oil (MMT)	18.558	↑ 0.9%	↑	□	Volume growth driven by arrest of decline and KG-Basin ramp-up.
Production Volume - Gas (BCM)	19.654	↓ 1.6%	→	□	Offset decline by drilling 578 wells; highest in 35 years.
Realization - Crude (Standalone)	Not in doc	↓	↓	↓	Impacted by lower global benchmarks vs FY24.
Opex/unit (□)	Not in doc	→	→	→	OPEX increased only 2.8% YoY despite 4-5% inflation.
Net Debt (□Cr)	Not in doc	↓	↓	□	Deleveraged OPaL significantly; debt reduced at consolidated level.
Revenue Standalone (□Cr)	137,361	↓ 0.3%	→	→	Lower crude prices offset by volume stabilization.
PAT Standalone (□Cr)	35,610	↓ 12.1%	↓	□	Decline entirely due to □4,257 Cr higher exploration write-off.
PAT Consolidated (□Cr)	38,326	↓ 30.7%	↓	□	Hit by refining margin compression at HPCL/MRPL and OPaL losses.
Capex (□Cr)	62,000	↑ 67.5%	↑	□	Includes □18,000 Cr equity infusion into OPaL restructuring.
New Well Gas (NWG) %	20%	↑	↑	□	Volumes priced at 12% Brent slope (~$8) vs $6.5 APM.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	9M Performance	Margin	Trend	vs Avg	Key Development
Crude Oil	Not in doc	18.56 MMT	High	↑	Above	KG Basin oil at 34k bopd; target 45k bopd peak.
Natural Gas	Not in doc	19.65 BCM	Medium	↑	In-line	20% of volumes now on NWG pricing; yields ₹1.5k-2k Cr addl. revenue.
OPaL	Not in doc	Restructured	Improving	↑	Below	SEZ exit + cheap gas + ₹18k Cr equity restructuring delivered.
Renewables	N/A	2.5 GW	New	↑	New	Scaled from 192MW to 2.5GW via Ayana/ PTC acquisitions.
OVL	Not in doc	PAT ₹3,500 Cr (est)	Low	→	Below	Mozambique force majeure expected to lift; Azeri/Zakum performing well.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Oil Prod (FY26)	21.5 MMT (Standalone)	Requires KG-Basin to hit 45k bopd and BP TSP results by year-end.	Improved	Medium
Guidance	Gas Prod (FY26)	21 BCM	Needs 1.35 BCM incremental; DUDP (5 mmscmd) provides bulk of this.	On-track	Medium
Guidance	Gas Prod (FY27)	22 BCM	Requires successful DSF project launch in Dec 2026.	On-track	Medium
Strategy	Renewables	10 GW by 2030	Needs ~1.5 GW annual additions; currently at 2.5 GW.	Strong	Low
Strategy	OPaL Turnaround	Imminent profitability	Requires $8 gas pricing to hold vs market $13 and SEZ exit savings.	High	Medium
Strategy	OVL / Mozambique	Commissioning '27-'28	Dependent on Force Majeure removal "anytime now".	Poor	High
Macro	Gas Pricing	Migration to NWG	Targeting 10-15% volume migration to NWG pricing annually.	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	5.0	Probal Sen, ICICI Sec	KG-98/2	Financials	"When do we expect to get the 10 mmscmd target? Current is 2.8 mmscmd... is next year a fair assumption?"	Management confirmed gas platform living quarter delays; 6-7 mmscmd is the next step once weather improves, with 10 mmscmd peak delayed. Gas production growth will be bridged by the Daman Upside (DUDP) project (5 mmscmd) starting Jan-Mar 2026 at NWG pricing.	Specific month for 10 mmscmd peak.	4.0	Specific timeline given
2	4.5	Probal Sen, ICICI Sec	OPaL	Financials	"How does the SEZ exit benefit come about? What is the input mix today?"	Management explained SEZ exit saves 8-9% in custom/excise duties (□700-800 Cr/ year) and input gas is now ~$8 (APM/NWG) vs market $13-14. Feedstock restructuring is the primary lever for consolidated PAT recovery in FY26.	None	5.0	Clear and quantified
3	4.0	Bhaskar Chakraborty, Jefferies	Production	Business Overview	"Could you share the trajectory for crude production... target for FY26?"	Management expects crude production to hit ~21.5 MMT in FY26 as TSP (BP) initiatives and KG-Basin stabilization kick in. Reversal of the secular decline is now a recurring EBITDA	None	4.5	Specific guidance

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Cred.	Verdict
						tailwind rather than a drag.			
4	4.5	Mayank Maheswari, MS	Costs	Financials	"Rig rates were $90k, now $35k... how does this filter through?"	Management expects a 50% improvement in rig/vessel cost containment over the next FY as new 3-year contracts at lower market rates replace legacy contracts. OPEX stability in FY25 (up only 2.8%) proves the early efficacy of this cost management.	None	5.0	Clear and quantified
5	3.5	Sabri Hazarika, Emkay	Technology	Strategy	"How do you see the scenario turning out with global technology providers (TSP)?"	Management has deployed BP resources for Mumbai High and is now actively seeking a partner for "Cluster 3" in KG Basin (high gas volume, tech challenge). This signals a shift toward a partnership model to unlock stranded reserves without equity dilution.	Cluster 3 partner identity.	4.0	Directional evidence
6	4.0	Varatharajan, Antique	Capex	Capex and Allocation	"What is the Capex guidance year-on-year... new businesses like LNG?"	Management expects annual Capex to settle at □30,000-35,000 Cr (E&P + Renewables) now that the	Specific LNG asset targets.	3.0	Useful context

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Cred.	Verdict
						□18k Cr OPaL restructuring is behind them. LNG and Shipping will be OpEx-heavy/Asset-light models initially, protecting the balance sheet.			
7	4.0	Rajarshi Gupta, OVL	International	Strategy	"Any update on Sakhalin or Syria assets?"	Management confirmed 20% stake in Sakhalin-1 is stable (150-160k bopd) but abandonment funds are stuck in Rubles due to sanctions. Syria sanctions lifting is being monitored; force majeure removal in Mozambique is imminent for a 2027/28 start.	Sanction workaround details.	3.0	Vague but consistent

PATTERN FLAGS & SENTIMENT * **The "OPaL Overhang" Dissolution:** Analysts were intensely focused on whether the □18,000 Cr infusion was a "black hole" or a fix. Management was highly assertive, providing specific math on the SEZ exit (□700-800 Cr), gas pricing ($8 vs $13), and interest savings to prove the subsidiary is now a tailwind for consolidated PAT. * **Production Credibility:** After years of missing KG-Basin targets, the tone has shifted to "overshooting" via the Daman Upside (DUDP) and DSF projects. Analysts appeared cautiously convinced by the drilling of 578 wells—a 35-year high—which supports the claim that the base decline is arrested. * **Analyst Sentiment Verdict:** Analysts were **strongly convinced** on the standalone upstream story but **cautious** on the consolidated subsidiary drag. Management's credibility improved significantly due to the swift scale-up in Renewables (2.5 GW) and the completion of OPaL restructuring. The single largest unresolved issue is the **KG-98/2 Gas platform delay**, which remains the key monitoring point for H1FY26.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | |:---|:---|:---|:---|:---| | KG Gas | 10 mmscmd peak by 2024 end | "Delayed due to living quarter" | Living quarter/weather delay pushing peak gas by 6-9 months. | Slower revenue ramp-up from deepwater assets. | | OPaL Input | Mixed market feedstock | 60% Naphtha / 40% Ethane | US Ethane sourcing only from 2028; interim reliance on market pricing. | Delayed "perfect" margins until 2028. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (9M FY25)	This Quarter (FY25 Full Year)	Direction
Renewables Capacity	0.2 GW (approx)	2.5 GW	↑
NWG Gas Share	~10% of total gas	20% of total gas	↑
OPaL Status	Under Restructuring	SEZ Exit Complete; □18k Cr Infused	□
Mumbai High Strategy	BP MOU stage	BP Mobilized (TSP active from Apr-25)	↑
International (OVL)	Mozambique Stalled	Work started; commissioning targeted '27-28	↑
Capex Run-rate	~□45,000 Cr	□62,000 Cr (One-time spike for OPaL)	□
Management Tone	Cautious Growth	"Formidable Force" in Renewables/Integrated	↑

STOP HERE.