Oil & Natural Gas Corpn Ltd — Nov 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat on Standalone PAT / Inline on Production **One-line:** The thesis is shifting from "managing legacy decline" to "monetizing new volumes" as the KG-DWN-98/2 field finally hits critical mass (25k bopd) and the New Well Gas (NWG) pricing premium begins to flow into the P&L.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Beat	Standalone PAT of □11,984 Cr beat expectations, driven by a 66% YoY reduction in Windfall Tax (SAED).	□
Earnings Quality	Moderate	High quality core production growth (0.7%), but PAT was aided by a spike in Other Income (□3,071 Cr dividends).	□
Guidance Confidence	Strong	Management provided a specific 2-year production roadmap, targeting 46.2 MMTOE by FY27.	□
Management Credibility	Improving	KG-DWN-98/2 production doubled QoQ to 25k bopd; the "weather" excuses of Q1 have been replaced by delivery.	□
Business Quality Signal	Improving	Reversal of crude production decline (0.8% growth in H1) marks a structural pivot for the E&P giant.	□
Key Q&A Exchange	Q# 1 - Project Timelines	New projects (Daman/DSF-II) to add 9 MMSCMD gas by FY27; rigs to be moved immediately after platform install.	□
The Street's Primary Anxiety	OPaL Drain	Fear of capital misallocation in OPaL; Mgmt responded with a clear □18k Cr deleveraging and gas-linking plan.	□
Capital Cycle Stage	Investment	Heavy Capex phase (□34k-36k Cr/year) transitioning into production ramp-up.	□
Margin Trajectory	Improving	Net realization is expanding as Windfall Tax (SAED) hit Nil in late Sept, combined with NWG premiums.	□
Pricing Power	Expanding	Gaining pricing power through the NWG mechanism (12% of crude basket) vs the $6.5 APM ceiling.	□
FCF Conversion	Distorted	High Capex (□24k Cr in H1 including OPaL) is consuming operating cash; CFO not explicitly quantified.	□
Competitive Moat	Stable	Dominant domestic position; OPaL consolidation and NWG allocation enhance vertical integration.	□
Balance Sheet Strength	Strong	Despite □13k Cr OPaL infusion, balance sheet remains robust; OVL is self-sustaining.	□
Working Capital	Stable	No significant flags; high receivables mentioned in Q1 were not a focus this quarter.	□
Mgmt Guidance Track Record	Improving	Meeting the revised KG Basin ramp-up schedule (25k bopd reached in Oct).	□
Key Vulnerability	Brent Volatility	Thesis remains sensitive to Brent staying above $75 to sustain NWG pricing and OVL profitability.	□
Management Tone	Confident	Shifted from defensive to proactive; focused on growth guidance and subsidiary turnarounds.	□

Sentiment: □Positive | □Negative | □Neutral

Key Takeaways: * **Positives:** Crude production growth has finally turned positive (0.8% H1), breaking a multi-year decline trend. The KG-DWN-98/2 field is now producing 25,000+ bopd with a clear path to 45,000 bopd by year-end. The New Well Gas (NWG) pricing notification is a game-changer, allowing ~4.7 MMSCMD of gas to be sold at ~$8.4-$9/MMBtu, a ~30-40% premium over legacy APM gas. * **Negatives:** OPaL remains a net loss-maker (□637 Cr loss this quarter), and while the deleveraging plan is sound, it requires □18,365 Cr of ONGC's cash. Gas production is still in a marginal decline (-2.1%), though the rate of decline is narrowing. * **The Street's Concern:** Investors remain wary of the OPaL "money pit." Management addressed this by detailing a structural turnaround involving debt retirement (saving interest) and guaranteed feedstock (NWG gas), aiming for a FY26 turnaround. * **Watchpoint:** Execution of the remaining 5 wells at KG-DWN-98/2 and the transition of 10 MMSCMD gas production by March 2025.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS PPT not available — all numbers sourced from concall transcript.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Crude Production (MMT)	4.576	↑ 0.7%	↓ 2.0%	→	Volume Growth: Reversal of decline trend; H1 production up 0.8% YoY.
Gas Production (BCM)	4.912 (est)	↓ 2.1%	↑ 1.5%	□	Narrowing decline; improved from -3.6% in Q1 to -2.1% in Q2.
Crude Realization (□/ bbl)	6,561	↓ 6.4%	↓ 5.3%	↓	Pricing: Lower international Brent prices impacted gross realizations.
Opex (□Cr)	6,389	↑ 4.5%	↑ 5.1%	□	Driven by KG-DWN-98/2 activities and Mumbai Offshore maintenance.
SAED / Windfall Tax (□ Cr)	1,127	↓ 66.4%	↓ 60.2%	↑	Significant tailwind; SAED hit Nil in second fortnight of Sept 2024.
Exploration Write-off (□ Cr)	1,643	↑ 0.2%	→	→	Charging off dry wells in Assam, Arakan, and Vindhyan basins.
Revenue (Standalone) (□Cr)	33,881	↓ 3.5%	↓ 3.9%	↓	Lower crude prices offset by slightly higher production volumes.
EBITDA (Standalone) (□Cr)	18,236	↑ 12.8%	↓ 0.3%	↑	Margin expansion due to lower statutory levies (SAED reduction).
PAT (Standalone) (□ Cr)	11,984	↑ 17.1%	↑ 34.1%	↑	Aided by lower tax load and □3,071 Cr dividend income from subs/JVs.
PAT (Consolidated) (□ Cr)	9,878	↓ 38.9%	↓ 3.5%	↓	Dragged by weak refining margins at HPCL and MRPL.
Net Debt / (Cash) (□ Cr)	Not in doc	First entry	First entry	→	OPaL debt of □14k Cr remains after □18k Cr infusion.
Capex (H1 FY25) (□ Cr)	24,000	N/A	N/A	□	Includes ~□6,000 Cr OPaL infusion; E&P capex remains on track.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Company Avg	Key Development
Crude Oil	22,236 (est)	↓ 5%	High	↑	Above Avg	Realization down but SAED drop protected net margins.
Natural Gas	6,400 (est)	↓ 2%	Medium	↑	In-line	4.68 MMSCMD now fetching NWG premium price (~$9).
OVL	Not in doc	→	Not in doc	→	In-line	H1 production 5.04 MMTOE; guidance 10.5 MMTOE for FY25.
OPaL	3,664	↑	Negative	↑	Below Avg	Utilization at 94%; loss narrowed to □637 Cr from □983 Cr in Q1.
Refining (HPCL/MRPL)	Not in doc	↓	Compressed	↓	Below Avg	Primary reason for consolidated PAT miss vs YoY.

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	Current H1 is 9.2 MMT; requires KG Basin to hit 45k bopd sustained.	Improved	Medium
Guidance	Total MMTOE (FY27)	46.2 MMTOE	Requires 10% volume growth over 2 years; feasible with KG ramp-up.	On-track	Medium
Guidance	KG Basin Gas	10 MMSCMD by March 25	Currently 1.85 MMSCMD (Cluster 2); requires significant H2 ramp.	Delayed	High
Guidance	Capex (FY26/27)	□34k - 36k Cr	Consistent with historical $4bn+ annual run-rate.	Reliable	Low
Strategy	OPaL Turnaround	FY26 Turnaround	Requires Brent <$80 (feedstock) and stable petchem spreads.	Poor	High
Macro	New Well Gas (NWG)	Continuous increase	NWG volumes to grow as legacy wells decline (7.5%) and new wells drill.	New	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	Kirtan Mehta, BOB Cap	Project Timelines	Business Overview	"Would you give us more color on the project timeline and the ramp up that we can expect from these projects [L&T/ Mazagon awarded]?"	Management confirmed these gas projects (Daman/ DSF-II) will complete by end of FY26, targeting 9 MMSCMD combined. Production should start within 6 months of platform installation, providing visible growth for FY27.	None	4.0	Specific timeline given
2	5.0	Kirtan Mehta, BOB Cap	Gas Pricing	Management Commentary	"Does that mean that any decline over and above the 8% rate that we have been able to arrest will be considered as the new well gas for us?"	Management explained that any gas from new wells or interventions qualifies, with a 7.5% baseline decline rule used by the government. This allows ONGC to progressively transition legacy $6.5 gas to the ~$9 NWG price as fields are redeveloped.	None	5.0	Clear and quantified
3	5.0	Kirtan Mehta, BOB Cap	KG-DWN-98/2	Business Overview	"Would you sort of say the latest guidance on the both oil as well as the natural gas ramp up	Management confirmed 25k+ bopd current production and maintained the 45k bopd peak guidance for	None	4.0	Confirmed guidance

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					[at KG Basin]?"	March 2025. Gas is expected to hit 10 MMSCMD by year-end FY25 or early FY26, confirming the key volume driver is on track.			
4	4.0	Sabri Hazarika, Emkay	NWG Accounting	Financials	"This quarter also some impact is there... some portion of the volumes is getting that USD 9-10 price. Is that right?"	Management confirmed NWG billing started in September, with 4.68 MMSCMD currently allocated (including C2-C3 plant gas). This suggests a partial tailwind in Q2 that will fully materialize in Q3/Q4.	None	4.5	Verified impact
5	3.5	Sabri Hazarika, Emkay	Capex	Capex and Allocation	"From the government data, I think your CAPEX for this year H1 itself has been something like □24,000 crore?"	Management clarified that the □24k Cr figure includes the □6k Cr equity infusion into OPaL. Adjusting for OPaL, E&P Capex is □18k Cr, which is inline with the □33-35k Cr annual target.	None	5.0	Detailed breakdown
6	4.5	Probal Sen, ICICI Sec	OPaL Debt	Capex and Allocation	"After this investment is fully done, what will be	Management expects OPaL debt to drop to	None	4.5	Specific number

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					the residual net debt in the OPaL?"	~□14,000 Cr after the □18,365 Cr infusion. This massive deleveraging is the core of the turnaround thesis for the petchem subsidiary.			
7	4.0	Ajay Kumar Singh, ONGC	Production Roadmap	Management Commentary	"If you can once again give with the overall production guidance?"	Management provided 2025-26 guidance of 44.9 MMTOE and 2026-27 guidance of 46.2 MMTOE. This quantifies a mid-single-digit growth trajectory after years of stagnation.	None	4.0	Specific guidance
8	3.5	Vinod Hallan, OVL	OVL Status	Business Overview	"Any update on Venezuela?"	Management noted sanctions were re-imposed in April, and they are currently seeking OFAC approval for operatorship/ oil movement. Confirms that Venezuela remains a potential upside but currently restricted by geopolitics.	Approval timeline	3.0	Hedges on politics
9	4.5			Financials			None	5.0	

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
		Gagan Dixit, Elara	NWG Price Formula		"It's not that 20% over USD 6.5. It's a 12% of the current crude basket?"	Management clarified the NWG price is a straight 12% of the Indian Crude Basket (10% base + 20% premium), not a markup on the capped APM price. This yields a much higher realization (e.g., $8.4 at $70 Brent) than the $7.8 analysts previously estimated.			Formula correction
10	4.0	Vikash Jain, CLSA	KG Gas Exit Rate	Business Overview	"Around March, April, May, you are thinking you are targeting 10 MMSCMD [from KG]?"	Management confirmed they are estimating 10 MMSCMD by the end of FY25/start of FY26. This narrows the "end of year" ambiguity from previous calls.	None	3.5	Directional
11	4.0	Nitin Tiwari, PhillipCap	OPaL Strategy	Business Overview	"What was actually the need for allocation of domestic NWG gas for [OPaL] to be profitable?"	Management explained that replacing $14/MMBtu imported LNG with ~$9 NWG gas saves OPaL $5/MMBtu. This feedstock cost reduction is critical to moving the unit toward positive PAT.	None	4.5	Logical defense

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
12	3.5	Yogesh Patil, Dolat	Other Income	Financials	"Can you share the dividend part of that other income which you have received during the quarter?"	Management detailed □3,071 Cr in dividends (IOC, HPCL, MRPL, OVL). This explains the Standalone PAT beat despite lower crude realizations.	None	5.0	Fully transparent

PATTERN FLAGS & SENTIMENT * **The "OPaL Pivot":** Multiple analysts questioned the OPaL investment logic. Management was very clear: the combination of □18k Cr debt reduction and $5/MMBtu feedstock savings via NWG gas is the "magic bullet." The posture was confident, treating OPaL as a strategic asset being fixed rather than a perpetual drain. * **Production Credibility:** After years of "declining legacy" talk, management is now proactively using the term "reversing the trend." This confidence is backed by the doubling of KG Basin oil production QoQ. Skepticism remains regarding the 10 MMSCMD gas target for March, but the sentiment is moving toward "cautious optimism." * **Analyst Sentiment Verdict:** Analysts were **satisfied but detail-oriented**. The friction on KG Basin timelines has eased now that 25k bopd is visible. The primary focus shifted to the "NWG Mechanism"—analysts were trying to model how fast the high-priced gas volumes will scale. Management's credibility has improved this quarter because they delivered on the Q1 production promises.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening / Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | NWG Volume | Implicitly all new wells. | Currently 4.68 MMSCMD including C2-C3 plant gas. | The "pure" NWG volume from new wells is lower than some bull-case assumptions, as it includes redirected feedstock. | Lower immediate realization boost. | | OPaL Turnaround | General "sustainability." | FY25 still "subdued"; FY26 turnaround. | Explicitly pushing the profitability target to next fiscal year. | Continued consolidated PAT drag. |

---

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY25)	This Quarter (Q2 FY25)	Direction
KG Basin Oil	12,000 bopd	25,000+ bopd	↑
Gas Pricing	Awaiting NWG notification	Billing started at ~$8.4-9.0	↑
Windfall Tax (SAED)	High (~□2,800 Cr)	□1,127 Cr (Nil since late Sept)	↑
OPaL Status	JV Partner	7th Subsidiary (95.69% stake)	→
Production Trend	"Arresting decline"	"Reversing decline" (+0.8% H1)	↑
Management Tone	Defensive (Weather excuses)	Confident (Executing volume ramp)	↑
Dividend Income	Standard	High (□3,071 Cr)	↑

STOP HERE.