

INDICES

Indices	Previous (day) Close	% chg
Sensex	28929.1	0.1 %
Nifty	8927.0	0.0%

(As on 9th March, 2017)

From Research Desk

■ Company Updates

Oil & Natural Gas (ONGC)

OpaL dispatches first consignment of butadiene

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Current	Previous
CMP : Rs 190	
Rating : BUY	Rating : BUY
Target : Rs 256	Target : Rs 256

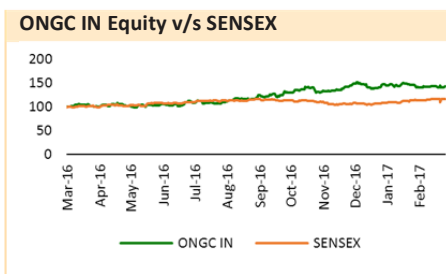
(NR-Not Rated)

STOCK INFO	
INDEX	
BSE	500312
NSE	ONGC
Bloomberg	ONGC IN
Reuters	ONGC.NS
Sector	Oil & Gas
Face Value (Rs)	5
Equity Capital (Rs mn)	64,166
Mkt Cap (Rs mn)	24,33,823
52w H/L (Rs)	212 / 133
Avg Daily Vol (BSE+NSE)	82,29,065

SHAREHOLDING PATTERN		%
(as on Dec,2016)		
Promoters		68.9
Public & Others		31.1

STOCK PERFORMANCE(%)	3m	6m	12m
ONGC IN Equity	(7.3)	11.6	38.6
SENSEX	8.2	0.5	16.7

Source: Bloomberg, IndiaNivesh Research



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Opal has exported its first consignment of butadiene to Singapore and is looking to get more export orders going forward. ONGC Petro Additions Ltd, promoted by ONGC (26%), GAIL (9%) and GSPC (0.2%), has commissioned its dual feed cracker unit (DFCU: US\$4.5 bn mega petrochemical project located in Dahej, Gujarat). Earlier, Opal has announced that naphtha, the principle feed stock for its DFCU, has arrived at GCPTCL port Dahej through sea route from ONGC Hazira, for onward transmission through pipeline to Opal's production facility. In addition to that, Opal has also procured propylene to start its operation of polypropylene (PP) unit. The complex will have a 1.1 Million tons Dual Feed cracker. It will mainly produce HDPE (Swing and Dedicated lines), LLDPE, PP, Benzene, Butadiene, CBFS and Pygas. The complex mothers a dual feed cracker with a capacity to produce 1100 KTPAethylene, 400 KTPA propylene along with polymerization units and various associated units consisting of pyrolysis gasoline hydrogenation unit, butadiene and benzene extraction units. The polymer plants of Opal has two LLDPE/HDPE swing units each with a capacity of 360 KTPA, a 340 KTPA of dedicated HDPE and a 340 KTPA of PP. the plant is first of the four projects under PCPIR which should export 50% of its output.

The project has seen several delays and cost overruns in the past. Slated to begin in 2012 the project has deployed Rs. 300 bn in the plant vs the earlier assessment of Rs. 125 bn. The success of the plant is pivoted on low per capita consumption of polymer in India at 5 kg per person vs global average of 26 kg per person. India has been a massive importer of polymers to the tune of 1.3 mn MT, which has inspired a slew of facilities to be developed by Opal, MRPL and RIL.

Meanwhile, Opal is also looking to sell 40% to a strategic investor in the project. The management indicated that at full capacity the project has a potential to generate Rs. 160 bn of annual revenue.

Valuation:

Considering ONGC's 26% holding in Opal and full capacity revenue potential of Rs. 160 bn and assuming a similar PBIT margin profile similar to RIL's petchem business, the contribution to ONGC's bottomline at 100% utilization will be ~2%. Hence not material, although if they are able to find a suitor to sell part of the stake it may help them reduce the payback period of an already delayed project. Also MRPL, has a plant in southern India which essentially produces PP homopolymer, which is a typical grade of PP but if they are able to upgrade the same to match Opal's product portfolio comprising PP of all grades (PP homopolymer, impact copolymer and random homopolymer) and also sorts out logistics overheads to northern and western India market, the same may dent's Opal's profitability. At CMP Rs. 190 ONGC is trading at 10.3 FY19E EPS, we maintain our BUY rating on the stock with a target price of Rs. 256 (based on 12x FY19e earnings + Rs. 29 as investment in GAIL, IOC, MRPL & Petronet LNG).

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin	RoE(%)	Adj.P/E(x)	EV / EBITDA (x)
FY15	8,30,935	3,32,453	1,83,285	14.3	40.0	13.0	13.6	7.5
FY16	7,85,651	3,20,971	1,61,123	12.6	40.9	10.9	15.5	7.4
FY17E	7,64,308	3,65,940	1,79,895	14.0	47.9	11.3	13.9	6.3
FY18E	8,64,331	4,16,639	1,81,621	14.2	48.2	10.2	13.8	5.3
FY19E	9,00,764	4,45,604	2,43,221	19.0	49.5	12.3	10.3	3.8

Source: Company, IndiaNivesh Research

Income Statement (Standalone)

Y E March (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Net sales	8,30,935	7,85,651	7,64,308	8,64,331	9,00,764
Growth (%)	(1)	(5)	(3)	13	4
Operating expenses	(4,98,482)	(4,64,680)	(3,98,369)	(4,47,691)	(4,55,160)
Operating profit	3,32,453	3,20,971	3,65,940	4,16,639	4,45,604
Other operating income	0	0	0	0	0
EBITDA	3,32,453	3,20,971	3,65,940	4,16,639	4,45,604
Growth (%)	(9.2)	(3.5)	14.0	13.9	7.0
Depreciation	(1,14,583)	(1,16,432)	(1,26,940)	(1,31,171)	(1,37,254)
Other income	53,665	61,922	40,000	51,862	51,261
EBIT	2,71,535	2,66,461	2,79,000	3,37,330	3,59,612
Finance cost	(28)	(50)	(4,000)	(4,000)	(4,000)
Exceptional item	0	(31,422)	(12,000)	(68,000)	0
Profit before tax	2,71,507	2,34,989	2,63,000	2,65,330	3,55,612
Tax (current + deferred)	(88,222)	(73,866)	(83,105)	(83,709)	(1,12,391)
Profit / (Loss) for the period	1,83,285	1,61,123	1,79,895	1,81,621	2,43,221
Associates, Min Int	0	0	0	0	0
Reported net profit	1,83,285	1,61,123	1,79,895	1,81,621	2,43,221
Extraordinary item	0	0	0	0	0
Adjusted net profit	1,83,285	1,61,123	1,79,895	1,81,621	2,43,221
Growth (%)	(17)	(12)	12	1	34

Source: Company, IndiaNivesh Research

Balance Sheet (Standalone)

Y E March (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Share capital	42,778	42,778	42,778	42,778	42,778
Reserves & surplus	14,03,232	14,75,749	16,34,171	18,40,055	20,40,036
Net Worth	14,46,010	15,18,527	16,76,949	18,82,833	20,82,814
Minority Interest	0	0	0	0	0
Total Liabilities	6,34,788	6,82,530	6,95,491	7,34,479	7,79,186
Non-current liabilities	4,31,602	4,71,108	4,95,056	5,11,851	5,47,591
Long-term borrowings	0	0	0	0	0
Deferred tax liabilities	1,77,332	1,95,356	1,95,356	1,95,356	1,95,356
Other Long term liabilities	640	146	452	507	561
Long term provisions	2,53,630	2,75,606	2,99,248	3,15,987	3,51,673
Current Liabilities	2,03,186	2,11,422	2,00,435	2,22,628	2,31,596
Short term borrowings	13,930	0	0	0	0
Trade payables	55,611	51,265	49,793	56,379	58,790
Other current Liabilities	1,12,867	1,11,631	1,08,425	1,22,766	1,28,017
Short term provisions	20,778	48,526	42,218	43,484	44,789
Total Liabilities and Equity	20,80,798	22,01,057	23,72,440	26,17,312	28,62,000
Non Current Assets	14,49,052	15,73,924	16,23,694	16,87,074	17,39,453
Net Block	12,67,809	13,71,017	14,20,787	14,84,167	15,36,546
Goodwill	0	0	0	0	0
Non-current Investments	1,81,243	2,02,907	2,02,907	2,02,907	2,02,907
Long-term loans and advances	0	0	0	0	0
Deferred tax Assets	0	0	0	0	0
Other non current Assets	0	0	0	0	0
Current Assets	6,31,746	6,27,133	7,48,746	9,30,238	11,22,547
Inventories	59,635	56,421	54,801	67,385	3,500
Sundry Debtors	1,35,783	53,020	77,497	87,748	91,501
Cash & Bank Balances	27,601	99,566	1,55,977	2,76,467	7,98,847
Other current Assets	1,44,542	1,51,563	1,64,907	1,74,787	1,80,667
Loans & Advances	2,64,185	2,36,531	2,65,531	2,93,819	18,000
Current Investments	0	30,032	30,032	30,032	30,032
Total (Assets)	20,80,798	22,01,057	23,72,440	26,17,312	28,62,000

Source: Company, IndiaNivesh Research

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