"Third Quarter Financial Year 2016 Earnings Conference Call of ONGC Limited"

SPEAKERS: Mr. A. R. Patel, ED, Chief Corporate Finance
Mr. Yash Malik, ED,Chief Corporate Planning
Mr. J. B. Bansal, GM Finance, OVL
Mr. S.Ranganathan, DGM Finance, IRC

Moderator: Very good evening, ladies and gentlemen. I am Sourodip Sarkar, your moderator for this session. Thank you for standing by and welcome to the Third Quarter Financial Year 2016 Earnings Conference Call of ONGC Limited. For the duration of presentation, all participants' lines will be in listen-only mode and post that we will have a Q&A session. And now without any further delay, I would like to now hand over the proceedings to our first panel member for today, Mr. A. R. Patel, he is Executive Director, Chief Corporate, Finance. Thank you and over to you, sir.

A. R. Patel: Good evening, ladies and gentlemen. My name is A. R. Patel, Executive Director, Finance, ONGC. Good Evening Ladies and Gentlemen, I am A K Srinivasan, Director (Finance), ONGC and on behalf of ONGC I welcome you all in this ONGC earnings call for Q3 FY16. Thank you all for joining us on the call. I am joined here by my colleagues Mr. Yash Malik, ED-Chief Corporate Planning, Mr A R Patel ED-Chief Corporate Finance, Mr. S Ranganathan of Investor Relation Cell and I also have my colleague from OVL.

The financial results for the third quarter and nine months ended December 2015 have been taken on record by ONGC's Board today, i.e. 11th February 2016. The results have been released through a Press Note and sent to the stock exchanges. This has also been sent to the analysts who are there on our mailing list. Let me give a synopsis of the results.

The company has earned a net profit, i.e. profit after tax of Rs3,898 Crore during the 3rd quarter of FY'16 as against Rs 3,571 Crore during 3rd quarter of FY'15, an increase of Rs 327 Crore (i.e. 9.2%). The profit after tax for the nine months of FY'16 is Rs 14,200 Crore as against Rs 13,798 Crore for the nine months of FY'15, an increase of Rs 402 Crore (i.e. 2.9%).

The increase in PAT in Q3 FY16 is mainly due to higher VAP sales realization by Rs 298 Crore, decrease in statutory levies (Rs 520 Crore), decrease in the Government of India's share of profit petroleum (Rs 433 Crore), decrease in Dry Well cost written off by Rs 1,586

Crore, decrease in Survey Cost by Rs 192 Crore, decrease in DD&I cost by Rs 85 Crore and gain due to exchange variation by Rs 102 Crore.

However, this increase in PAT has been offset by lower crude and Gas realization by Rs 292 Crore and Rs 755 Crore respectively, decrease in operating income by Rs 109 Crore, decrease in Interest & Dividend Income by Rs 61 Crore, decrease in non-operating income by Rs 455 Crore, increase in operating expenditure by Rs 1,142 Crore, increase in provisions & write off by Rs 15 Crore and finally by a higher tax burden (Rs 156 Crore).

The increase in PAT during 9M FY16 is mainly due to higher crude and gas realization by Rs 766 Crore & Rs 819 Crore respectively, decrease in statutory levies (Rs 889 Crore), decrease in the Government of India's share of profit petroleum (Rs 1,095 Crore), decrease in Survey Cost (Rs 21 Crore), decrease Dry Well cost written off (Rs 4,217 Crore).

However, this increase in PAT in 9M FY16 is partly off-set by lower VAP realization by Rs 1845 Crore, decrease in operating income (Rs 52 Crore), decrease in Interest & Dividend Income by Rs 498 Crore, decrease in Non-Operating Income (Rs 330 Crore), increase in the operating expenses by Rs 3,518 Crore, increase in DD&I (Rs 809 Crore) and increase in provisions and write off (Rs 47 Crore). Further this increase in PAT is offset by an increase in loss due to Exchange fluctuation (Rs 77 Crore) and finally by an increase in tax burden (Rs 337 Crore).

There was no subsidy towards our share of under recoveries of oil marketing companies during Q3 FY16 as against Rs 9,458 Crore in Q3 FY15. The same for the nine months of the current fiscal stood at Rs 1,729 Crore as against Rs 36,300 Crore for the nine months of FY15.

The sales revenue for Q3 FY16 is lower by Rs 324 Crore, a decrease of 1.7% at Rs 18,446 Crore as against Rs 18,770 Crore in the corresponding quarter of previous year mainly on account of unfavorable price & quantity variance in respect of Gas, unfavorable qty. variance in respect of crude and negative price variance in respect of JV Crude. This negative impact on sales revenue for the quarter has been partially offset by a positive price variance of Nominated crude and favorable qty. & price variance in respect of VAPs. This decrease has been further offset by a lower profit petroleum surrendered by Rs 433 Crore during Q3 FY16.

However, sales revenue in 9M FY16 is higher by Rs 790 Crore, an increase of 1.3% at Rs 61,800 Crore as against Rs 61,010 Crore in the corresponding nine months of previous year mainly on account of favorable price & quantity variance in respect of nominated crude offset largely by unfavorable price & quantity variance in respect of Joint Venture crude, increase in Gas realizations mainly due to positive price variance. This increase is offset largely by a decrease in sales revenue of Naphtha coupled with unfavorable price variance of other VAP realizations. This positive impact on sales revenue has been further supplemented by a lower profit petroleum surrendered by Rs 1,095 Crore during 9M FY16.

The gross billing for crude during the third quarter of the current fiscal was at USD 44.34/bbl as against USD 75.95/bbl in the same period of last year i.e. a decrease of 41.6%. However, since there is no discount by way of our contribution towards the under recoveries to downstream marketing companies in Q3 FY16, the net realization for crude oil in this quarter stood at USD 44.34/bbl as against USD 35.52/bbl in the same period of last year, an increase of USD 8.82/bbl (24.8%). Similarly, the gross billing for the nine months of this year stood at USD 52.95/bbl as compared to USD 95.41/bbl for the nine months of last fiscal, a decrease of USD 42.46/bbl (44.5%). The net realization after discount for the nine months of the current year was USD 50.56/bbl vis-à-vis USD 41.21/bbl in the nine months of last year. The exchange rate of rupee versus dollar stood at Rs 65.93 vis-à-vis Rs 62.00 in the third quarter of FY16 thereby rupee weakening by 6.3%. Thus the post discount realization for crude in rupee terms stood at Rs 2,923/bbl in Q3 FY16 vis-à-vis Rs 2,202/bbl in Q3 FY15 which amounted to an increase of 32.7%. Again during 9M FY16, the net realization in rupee term has gone up by Rs 771/bbl i.e. from Rs 2,504/bbl in 9M FY15 to Rs 3,275/bbl in 9M FY16 being an increase of 30.8%.

Interest and dividend income has decreased by Rs 61 Crore in Q3 FY16 from Rs 738 Crore in Q3 FY15 to Rs 677 Crore in Q3 FY16. Again during 9M FY16, interest and dividend income has decreased by Rs 498 Crore i.e. from Rs 2,702 Crore in 9M FY15 to Rs 2,204 Crore in 9M FY16. The decrease in interest and dividend income both in Q3 FY16 & 9M FY16 mainly due to decrease in average rate of interest on Bank/PSUs deposits & marginal decrease in weighted average investment and reduction of dividend from Mutual Funds attributable to reduction in return and reduction in average investments in mutual fund during 9M FY16. Also there is a reduction in the dividend from IOCL & GAIL due to lower dividend payout.

Non-Operating Income in Q3 FY16 has decreased by Rs 455 Crore as compared to Q3 FY15 i.e. from Rs 640 Crore in Q3 FY15 to Rs 185 Crore in Q3 FY16. Similarly during 9M FY16, non-operating income has decreased by Rs 330 Crore i.e. from Rs 932 Crore in 9M FY15 to Rs 602 Crore in 9M FY16. The decrease both in Q3 FY16 and 9M FY16 is mainly attributable to decrease in miscellaneous receipts on Account of compensation received towards past cost recovery for PMT & Ravva JVs during Q3 FY15.

The operating expenditure of Q3 FY16 has increased by Rs 1,142 Crore to Rs 5,005 Crore from Rs 3,863 Crore and during 9M FY16 the operating expenditure has increased by Rs 3,518 Crore to Rs 14,673 Crore from Rs 11,155 Crore mainly on account of the Increase in Manpower, Work over & water injection operation, Consumption of Material, R&D, Contractual Payments, Transportation, Pollution control, TOG, CSR expenditure, Un-allocable rig cost, Admn. Overheads, R&M.

DD&I cost for Q3 FY'16 stood at Rs 3,255 Crore as against Rs 3,340 Crore in Q3 FY'15 i.e decrease of Rs 85 Crore (2.5%). The decrease is mainly due to decrease in depreciation on account of re-classification of Facility Assets to Oil & Gas Asset on which depletion is being charged which were earlier depreciated. The impact of this reclassification resulted into higher depletion with corresponding reduction in depreciation. Further, there is a decrease in provision for impairment on exploratory wells in Q3 FY16. However, there is an increase in DD&I cost by Rs 809 Crore (9.7%) in 9M FY16 i.e. from Rs 8,355 Crore to Rs 9,164 Crore. This increase is mainly due to increase in depletion of TOG facility which were depreciated earlier. Also Increase in depletion is due to capitalization of facilities and new wells at Mumbai offshore. G1 field depletion also increased as production commenced from Q3FY15. In RJ 90/1 depletion increased due to increased capitalization and decrease in PDR. These increase in depletion is offset by decrease in depreciation due to re-classification of Facility Assets to Oil & Gas Assets on which depletion is being charged now which were earlier depreciated as brought out above. Further this increase is also offset by decrease in provision for impairment of exploratory wells in 9M FY16.

The exploration cost written off has decreased in Q3 FY'16 to Rs 698 Crore as compared to Rs 2,476 Crore in Q3 FY'15, a decrease of Rs 1,778 Crore. The decrease is mainly on account of higher dry well expenditure charged off by Rs 1,586 Crore in Q3 FY15 i.e. Rs 2,003 Crore in Q3 FY 15 as against Rs 417 Crore in Q3 FY16 and also because of lower 2D & 3D survey activity resulting in lower survey expenditure charged off in Q3 FY16 by Rs 192 Crore. Similarly, the exploration cost written off has decreased during 9M FY16 by Rs 4,238 Crore i.e. from Rs 8,215 Crore in 9M FY15 to Rs 3,977 Crore in 9M FY16. The decrease is mainly on account of higher dry well expenditure charged off by Rs 4,217 Crore in 9M FY15 i.e. Rs 7,151 Crore in 9M FY 15 as against Rs 2,934 Crore in 9M FY16 and also because of lower survey expenditure charged off in 9M FY16 by Rs 21 Crore.

Provisions and write off has increased by Rs 15 Crore i.e. from Rs 12 Crore in Q3 FY15 to Rs 27 Crore in Q3 FY16. Again, provisions and write off has increased by Rs 47 Crore in 9M FY16 i.e. from Rs 85 Crore in 9M FY15 to Rs 132 Crore in 9M FY16. This increase is mainly due to provision for long pending debt receivables and additional provision for non-moving inventories.

During Q3 FY16, the statutory levies stood at Rs 4,849 Crore as compared to Rs 5,369 Crore in Q3 FY15, i.e. a decrease of Rs 520 Crore (9.7%). Similarly during 9M FY16, the statutory levies also decreased by Rs 889 Crore (5.3%) from Rs 16,773 Crore in 9M FY15 to Rs 15,884 Crore in 9M FY16. This decrease is mainly due decrease in Crude Oil Royalty attributable to decrease in royalty on JV crude which is due to decrease in average selling price of JV crude. This has been offset partially by an increase in nominated crude oil royalty due to increase in average selling price and also by an increase in Royalty on Natural Gas attributable to increase in average selling price of Gas in 9MFY16. Further this decrease has been partially supplemented/offset by a decrease/increase in Cess mainly due to lower and higher quantity of Crude Oil sold in Q3 & 9M FY16 respectively from nominated blocks.

Well friends, with this I will finish my briefing on the third quarter results of fiscal 2015-16 and we will be happy to take questions. Please try to confine your questions on the quarterly results only.
Thank you,

Moderator: Thank you very much, sir. So participants should you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. I'd like to repeat, should you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. We have the first question from Mr. Nitin Tiwari from Antique Limited. Your line is unmuted. You may please go ahead and ask your question.

Nitin Tiwari: Hi, sir, good evening. I just wanted to understand on the impairment part that you've mentioned. So is this impairment reversible as and when the crude oil price is reversed?

A. R. Patel: Yes, definitely.

Nitin Tiwari: And second, sir, this impairment would be on which reserve numbers, I mean, would it be like, you know, on your 1P number or, you know, this impairment has been taken on the 2P and the 3P number?

A. R. Patel: No. It is on 1P.

Nitin Tiwari: It is on 1P?

A. R. Patel: Yes.

Nitin Tiwari: So which means there's a portion of 1P which is not recoverable at the current crude oil prices, that is what it broadly means, right?

A. R. Patel: Yes.

Nitin Tiwari: And secondly, sir, in terms of subsidy sharing, so this quarter we've been exempted from the subsidy sharing so would it be reasonable to like, you know, assume that like, you know, crude oil price has remained where they are like probably there would not be any subsidy burden and which was like, you know, the price of subsidy burden also is about like, you know, very marginal number as such, so what's your sense on that?

A. R. Patel: Definitely, at this price you don't expect any subsidy.

Nitin Tiwari: Right, sir. And, sir, besides the question just a very like, you know, a very humble suggestion over here, sir, so while you were reading on the brief for the entire result, as far as I am concerned, sir, I was not able to understand all the numbers like, you know, in terms of differences nine months and quarter-on-quarter, so it would be great if like, you know, this is shared in terms of a write-out to us and like that will save time for you like, you know, in the beginning of the call every time if we have the write-up with us and we can like directly move on to the broader numbers and the question-and-answer because it's hard to follow and to write down all the details.

A. R. Patel: Actually, Mr. Nitin, normally what we used to do is we have been giving out, you know, all these presentations to your mail, but somehow we got delayed this time, so it is probably it would be coming up and reaching you with all these numbers.

Nitin Tiwari: Sure, sir. No, I am aware of the volume data. Sir, I am talking about the entire detail that you gave out, if that is also given to us in a written format, so that would save you the trouble of reading everything out and, of course, like, you know, so that's what I am saying. That's all from my side.

A. R. Patel: We will see in future. Okay.

Nitin Tiwari: Yeah. Thank you, sir.

A. R. Patel: Thank you.

Moderator: Thank you very much. We have the next question from Mr. Prashant from Axis Capital. Your line is unmuted. You may please go ahead and ask your question.

Prashant: Hi. Thanks a lot for the opportunity. Sir, on the impairment, again, at what crude oil prices we have tested our FX, that is number one. Secondly, is this only crude oil price angle, have we checked our FX for the device in natural gas prices which are likely to reduce by about 15% from April 1st, that is second? And if you can also break down the impairment across various assets that would be great because I understand that most of the economy or onshore assets and to best of my understanding onshore assets would have been lower breakeven oil price as compared to our assets, but in offshore, sir, we haven't taken any impairment so if you can clarify on these three points, it would be great?

A. R. Patel: Yeah. First of all, the price which we have considered is around $33-34 at the current level and we have projected an increase in the price which is projected in the platts projections to 2019-20 and then after we have maintained the price as it is, so this is regarding the oil price. And the gas price we have taken the current price whatever current price is there.

Prashant: Okay. And the escalation crude price that we have assumed is roughly 5-6%?

A. R. Patel: We have projected the prices up to 2019-20, so that is increasing by around, see, at the end of the period it is coming around $50 over a period of time like that.

Prashant: Okay. And, lastly, if you can break down the 4000 crores across various assets because we have taken this write-off on the onshore, eastern onshore, as, I guess, the offshore assets there also heavy capital investment which can be subjected to impairment , so please clarify that issue.

A. R. Patel: Eastern onshore we have lot of spending and operating expenditure is also high there, so the net realization is less, so that is why there is impairment in the eastern onshore. And as far as the offshore is concerned, though our cost is high, but the volumes are also high, so that is offsetting and we don't have any impairment in the offshore.

Prashant: Okay, sir. Sir, lastly, I wouldn't take much of your time, but when is the next review for this impairment, I mean, will you be looking at the same after six months, usually it's annual activity, right?

A. R. Patel: Yeah. So we will review in the annual accounts definitely.

Prashant: Okay. Cool. Thanks a lot.

A. R. Patel: Yeah. Thank you.

Moderator: Thank you very much. We have the next question from Mr. Prabol Sen from IDFC Securities. Your line is unmuted. You may please go ahead and ask your question.

Prabol Sen: Thank you. Good evening, sir. Just a couple of questions, one, with regard to the Cess has any progress been made with regard to the pending application or approach that ONGC has been making for reducing it to ad valorem level, is there anything concrete that has developed since your last update and secondly...?

A. R. Patel: Our Ministry has already recommended to the Finance Ministry for a reduction in Cess and we are hopeful that this may be announced in the budget.

Prabol Sen: So the expectation would be, sir, to basically go in for an ad valorem regime rather than the fixed regime , right?

A. R. Patel: Yeah.

Prabol Sen: Okay. And, secondly, sir, you just mentioned that the offshore volumes are higher as far as, you know, the oil and gas production and therefore cost are also, you know, higher but they are offset, so therefore there has been no impairment, but, you know, how does the economics of our ongoing developments actually fare in this current environment, we have some pretty expansion, we have some pretty, you know, high CapEx offshore on the KG Basin going on, so are we, you know, sort of tested the economics of those projects as well?

A. R. Patel: No. KG Basin we've not yet started in the main KG Basin and the other fields we are already producing, so most of the developments have already taken place and that we've already considered this in the impairment exercise.

Prabol Sen: Okay. So none of them actually failed the test even at these prices is what you are saying?

A. R. Patel: Yes. As on date, whatever the projects we have undertaken and already on production there is no impairment.

Prabol Sen: Okay. All right. Sir, just some housekeeping questions with regard to, you know, we have been hearing about renegotiation of drilling contracts that ONGC is attempting and, you know, things like that because of the new environment, but any changes to our declared or MoU CapEx targets for 2017 and 2018?

A. R. Patel: 2017-18 we have not declared any CapEx. 2016-17 our figure is around 29000 crores for CapEx.

Prabol Sen: And that we've broken down a bit, sir, in terms of exploration, development and so on?

A. R. Patel: Yes. That is there. Around 2000 crores is in survey.

Prabol Sen: Sorry? Survey? Okay.

A. R. Patel: 7% is in survey, 25% is exploratory drilling, 34% is development drilling and 31% is the capital and 2% is R&D and other things, it is like that.

Prabol Sen: Okay. Thank you, sir. That is all from my side. Thanks.

A. R. Patel: Okay.

Moderator: Thank you very much. We have the next question from Mr. Vinay Jay Singh from Morgan Stanley. Your line is unmuted. You may please go ahead and ask your question.

Vinay Jay Singh: Thank you so much for the opportunity. Apologies, if there's any noise from my side. I have three questions, you know, again back on the impairment question. If you are going to cut your reserve-based assets, what about assets in OVL like Mozambique, are we part of any impairment out there and if yes is that part of the menu or what would that be, that's my first question. Second, how are you now looking at production growth in the next one to two years? My final question, you mentioned the CapEx number right now. I assume this is the CapEx number when oil was 80, 60 and now it is 35, is there no reduction in CapEx one should assume at current level? Thank you, sir.

A. R. Patel: Regarding the Mozambique, our friend, Mr. J. B. Bansal, will reply the question.

J. B. Bansal: Yeah. Vinay, as far as Mozambique is concerned, we acquired it last year only whether it is 1P or 2P as far when it was 2P only and today also it is in the same level, but FID is likely to be submitted sometime in end of 2016 and beginning of 2017 and even at the current prices of gas what we expect and when we take the net back at Mozambique level, perhaps, there will be no impairment. That's what we feel as of now. We have not done the conclusion because of our accounts are under preparation. And normally as far as OVL is concerned, we evaluate the impairment sometime only on annual accounts not on quarterly, but still we feel Mozambique there should be no impairment. Next question Mr. Patel will reply.

A. R. Patel: Production growth we expect marginal growth in oil and gas production next year. Gas we may go up as many projects are already ongoing and we may, you know, we expect 21.8 BCM for 2015-16 for standalone. Next year we are expecting i.e. in 2016-17 gas production to go up to 24.657 BCM from 21.84 BCM.

Vinay Jay Singh: Sir, you are assuming that no cut in the production numbers you are giving us right now despite the current oil and gas price?

Management: There will be no impact on the production because our development activity is already going on and production of oil is coming from these fields, so we don't expect any reduction in production.

Vinay Jay Singh: Sure, sir. My last question on CapEx.

Management: CapEx, see, earlier last year our CapEx was about Rs 36000 crores in BE15-16 which was brought down to about Rs 31000 crore in RE 15-16 and again further down to about Rs 29000 crores in BE16-17, so there is a considerable reduction compared with the BE of 15-16.

Vinay Jay Singh: Sure, sir. Thank you so much, sir.

Moderator: Thank you very much. We have the next question from Mr. Manish from HSBC. Your line is unmuted. You may please go ahead and ask your question.

Manish: Yeah. Good evening. My question is related to OVL production. Some of the productions will probably be unviable at current oil price, do you intend to continue to producing those or is there any plan of shut them off now and then go back when the oil price goes up, is there any thought on those lines?

J B Bansal Okay. Manish, one thing you have to understand in E&P very clearly that shutting down the production has its own cost, it has quite significant cost if you shut down the production. And when you are calculating, I mean, economics, then you have to calculate the cash outgo and in OVL, I think, last call also I had told that crude oil of our production cash outgo is around $16 to $17 a barrel, right? So even with the current oil prices we make so-called operating profit, I am using the word operating profit. So the question is even in tough time what you have to look at it? If you are not able to increase the profit or if you are not able to make the profit, then what you look at it is you look at minimizing the losses. So if I shut down the production, perhaps, I will increase the loss, right? Another thing is when the crude oil prices are low and in some of the projects because of our OVL projects are all overseas and we are not governed by, you know, Indian laws as far as operations are concerned. Operating costs are also being negotiated, all the contracts are being negotiated by the operators, and result of which I think should be visible. It is already visible to some extent, but it should be visible in a great way maybe going forward one, two or three months. I hope I am able to answer your question?

Manish: Yes, sir. Thank you. If you could also throw some light on the Russian assets, I am not talking of Shaklin, I am talking of the...?

A. R. Patel: You are talking about Vancor?

Manish: Talking about the ones that you bought from Imperial.

J B Bansal: Imperial? Yeah, Imperial basically, yes, I assume today production is not as we expected when we acquired it, there are reserves in place, but we are applying the new technologies and the technology is fracking technology which is working very well in U.S. shale gas and all that and we also tested two wells with that technology, extended horizontal wells and this gave good results. Going forward, perhaps, we will apply the technology and maybe, I think, with the passage of time maybe three months, four months, five months we will test the results and then we will see where do we land. Yeah?

Manish: Thanks. Just a last...

J B Bansal: As on today, yes, I agree the production is not as we expected. Yeah?

Manish: Sir, just a last question on that Imperial itself. Is the cost in the range of below $20 in that area or do you...?

J B Bansal: Well, unfortunately, as of now I don't have cost figures right now. That I can share with you later on, yeah?

Manish: Sure. Thank you, sir.

Moderator: Thank you very much. We have the next question from Mr. Pinakan Parikh from J. P. Morgan. Your line is unmuted. You may please go ahead and ask.

Pinakan Parikh: Thank you very much. Two questions from my side. First question is, sir, can you give us a sense of what have been the losses at OVL in the previous quarter, I mean, just trying to understand that at current oil prices how should we look at OVL at the EBITDA and PAT level? And the second question is, sir, this quarter, I mean, the EBITDA is around 8500 crores, would the CapEx, how much of the CapEx, what is the CapEx have been fully funded as of the December quarter from the cash generated from operations, or would the company have to rely on debt. So what I'm trying to understand is that if Oil price sustain at current levels, for the 29,000 crore of capital spent for next year, would the company have to increase borrowings in order to fund it?

Management: Regarding this CapEx funding, even at the current prices, we hope that we will be able to finance. And we are expecting some reduction in Cess also. So with that expectation, we will be able to fund from our own sources. Further, we have some surplus available as of now. So we don't expect any borrowing to be done during next year.

Management: As far as OVL is concerned, first half, that is April to September, there was a loss of around 185 crores. But that has certain unusual item and impairment for Libya, that is minimum work program and all that. And our nine-month accounts are under compilation and will be coming to the investors maybe sometime in first week of March. We plan to have the board meetings somewhere on 19th, but due to unavailability of some of the directors, that meeting is postponed. And that will be held sometime in I think 1st week of March, and we'll come to you with the result.

Pinakan Parikh: Thank you very much.

Management: Yeah.

Moderator: Thank you very much. We have the next question from Mr. Arya Sen from Jefferies. Your line is unmuted. Please go ahead and ask your question.

Arya: Hi. Good evening, sir. Firstly again on the impairment, at what crude price would you be able to write back this?

Management: Write back?

Arya: Yeah.

Management: Write back, actually this impairment is done on a field-to-field, asset-to-asset basis. So we have impaired only one asset, i.e. Eastern Onshore. Otherwise all other assets at current prices are all okay. So if there is improvement in the price, definitely we will write back on installment basis, whenever there is improvement in the price, this impairment will be written back.

Arya: Is that price $40, $50? What is the sense of that price?

Management: That calculation we have to make, because we have not made that calculation at what price we will be able to reverse this. But roughly around $10 increase I think around $45 price we will be able to reverse it.

Arya: Do the accounting norms allow you to reverse it or how…

Management: Yeah. It allows write back of impairment provisions.

Arya: Okay. Secondly, for OVL would presume do this impairment test separately for the different assets, right? I mean can we expect the entire number the March ending results or how does it work?

Management: Well, again in OVL, we do the impairment assetwise within the country, like Imperial we'll do it separately and Vancor , of course, there should not be any impairment at all. We'll do it assetwise again. And normally we do it at the time of annual accounts only because we have to get the results from operators and all that.

Arya: So in the March full-year result…

Management: March accounts, yeah.

Arya: We'll get that number, right?

Management: Yes, yes.

Arya: And the crude price for those would be different across different assets?

Management: Well, the standard is that crude oil prices will be taken whenever you are calculating the impairment and forward prices as indicated by the site, normally Platts or Bloomberg, whatever it is, there are different sites, they give different prices. And as on 1st April, whatever price is there, including forward price, hopefully that should be taken. Yeah?

Arya: Okay. Understood. And lastly, sir, if you could just give us again the production guidance for FY17 for just the nomination blocks, both crude and gas?

Management: Both crude and gas?

Arya: Yeah, yeah.

Management: Yeah, for the crude it is around 22.76MMT and JV 3.39 MMT.

Arya: And gas, sir?

Management: Gas it will be 24.66 BCM and 1.13 BCM for JV.

Arya: And this is the MoU target, right? I mean you've not revised this in any way to reflect…

Management: This is internal budget estimate 16-17, and it will be MoU also, same figure.

Arya: Okay, understood. Thanks a lot.

Management: Yeah.

Moderator: Thank you very much, sir. We have the next question from Mr. Sanjay from Bank of America. Your line is unmuted. You may please go ahead and ask your question.

Sanjay: Good evening, sir. Thank you for the opportunity. Will you be able to help quantify the carrying cost of the assets where the impairment has been taken? So 4000 crores is what percentage of the carrying cost? You have a broad figure, please.

Management: That figure we don't have right now. But that we have taken only one asset, that whatever, only eastern onshore asset. But if you see overall, then it is not very significant value.

Sanjay: Price, okay. And can we assume that when you reviewed one asset, you've also reviewed all the other assets in India.

Management: Yeah, reviewed all the assets, yes.

Sanjay: Sir, on the CapEx bit, when you said 29,000 crores, is that a standalone number?

Management: It is standalone. As far as OVL is concerned our budget for this year that is going on, that is 2015-16, it is around Rs 8488 crores.

Sanjay: Right.

Management: And that without any acquisition. It does not include any acquisition. Yeah, it is CapEx for the ongoing project.

Sanjay: Correct. Then again, going back to the question somebody asked is with the 8000 crore CapEx for next year, do you think OVL will be self-funding or will ONGC have to infuse cash?

Management: See, what happens going next year, till now for this year, April to December, if I look at the numbers, till now we have carried on operations out of our internal accruals only, till now. So I don't think we are in cash deficit in a big way. And that's the advantage. I think most of the investors would get that ONGC as a group we are much comfortable as compared to many MNCs, whatever could be the reason.

Sanjay: Yeah. So this is my last question. When you consider paying dividends for FY16, will you adjust for the impairment or will it be on the reported PAT?

Management: No, no, reported PAT will be after impairment only.

Sanjay: That's it from me, sir.

Management: Thank you.

Moderator: Thank you very much. We have the next question from Mr. Vishnu from Spark Capital. Your line is unmuted, you may please go ahead and ask your question.

Vishnu: Sir, this is Vishnu from Spark Capital. Just a few questions. Sir, firstly how much has your cost of production, let's say, per barrel for ONGC has come down by vis-sa-vis '15 to now? I mean in terms of your lifting, processing and transportation cost put together?

Management: Lifting, shipping, transportation.

Vishnu: Even if you can give per Rupees per thousand per ton, it'll be good enough. Basically your cash operating cost for ONGC, how much has it come down by?

Management: It's not come down. In fact, the operating cost will not come down because our operations we have to continue. And because these wells are old, we have to do a lot of work over activity in the well. So our OpEx is not reduced compared to last year.

Vishnu: So if I go back, it used to be around $12 to $13. So it largely remains the same per barrel.

Management: It is like that only. Around $12.

Vishnu: Okay. In terms of gas pricing, likely to change to about 3.5 starting April. I also was reading from news articles that you asked the government not to revise it lower than 4.2. Just like to have your thoughts, whether are we making money at 3.5. And in terms of impairment too, should we test gas assets at 3.5? Just your thoughts.

Management: No, till now 3.5 figure has not been announced. So we cannot take that for impairment purpose. And as far as the cost of production gas is concerned, we are comfortable at $3.5/mmbtu and even if you consider the cash cost i.e. operating cost including the statutory levies even then we'll be within that figure.

Vishnu: So you're saying including statutory levies still you're probably just about there?

Management: Yeah.

Vishnu: You are spending about 7000 crores of CapEx in terms of E&P and ONGC standalone. If you could just tell us which areas are you going to spend this on, onshore, offshore, and decision as to spending this money when at time when crude was low at these prices?

Management: See, in fact, exploration expenditure, it is a good opportunity for us to spend because the services costs are lower now because oil price is low. So instead of exploring tomorrow, it could be explored today, then it will be at a cheaper rate, because exploration anyway we are not going to get the benefit immediately.

Vishnu: This will be focused on the offshore or the onshore, sir?

Management: It is all over, across onshore, offshore, both.

Vishnu: Okay. Sir, on the OVL side, just one question here, we have close to about $600 million of receivables from one Venezuela and another country for quite a long time. are we considering any write offs here?

Management: We have a policy basically to make provision against the receivables. And as far as OVL is concerned we are taking up at the highest level with government of Sudan as well as Venezuela, work out the modalities for recovery of these outstanding dues. And to be frank, as on today, I may not be able to speak much on this. But yes, we are in continuous discussion and we hope some solution will be found.

Vishnu: Okay. And what about the Syrian asset, sir, about $400-$500 million is there? And given the way the country is, should we take a write-off on that or…

Management: It was not $400-$500 million carrying costs, and that has already been provided in the books of accounts.

Vishnu: It's already provided?

Management: Yeah.

Vishnu: Okay. And last question. How much of reserves will come down because of this impairment, sir?

Management: Where, OVL?

Vishnu: No, no, on the ONGC standalone.

Management: No, reserves will not come down, because reserves are already calculated earlier. That we don't reduce the reserves But we definitely calculate the impairment in the accounts. So whatever figure is there will show in the accounts.

Vishnu: Okay. Wonderful. Thanks a lot, sir.

Moderator: Thank you very much. We have the next question from Mr. Sujeet, from B&K Securities. Your line is un-muted, you may please go ahead and ask your question.

Sujeet: Most of the questions are answered. Just one thing, sir. Are you sending the guidance of the peak rates for marginal fields like D1, B-193 or it remains the same?

Management: I can’t tell you peak rates whether they remains the same or not.

Management: No, no, peak rate was there in B-193 we’ve reached the peak rate. And we’ll continue to produce for some more time.

Sujeet: And for D1?

Management: D1 of course D1 earlier we were expecting 36,000. But couldn’t get 36,000 barrels per day.

Sujeet: Okay. Sir, this 36,000 has been revised It was higher earlier.

Management: 36,000?

Sujeet: So but is it revised downwards or it was… because it was higher earlier.

Management: Yeah, earlier it was higher. It was revised downwards earlier itself.

Sujeet: Okay, sir, thank you.

Moderator: Thank you very much. We have the next question from Mr. A. Gandhi from Sundaram Mutual Funds. Your line is unmuted, you may please go ahead and ask your question.

Gandhi: Thanks a lot for your opportunity. Sir, regarding the 2D seismic tenders that was supposed to be awarded, any update on that, sir?

Management: No, we are not aware of that tender, because tender is being done from Mumbai. So we are not aware of tender status.

Gandhi: Okay. And sir, just with regards to this write offs and all that you've taken. So the producing properties will essentially come down, sir, DDA expense going forward should be lower to that extent or…

Management: Yeah, it will be lower. If we don't reverse this impairment, then subsequent depletion will be lower.

Gandhi: Okay. As of now, whatever right now you have taken, you are providing depletion on those. So corresponding reduction we can take in that…

Management: That will be coming, which are not there this quarter, which will come from next quarter, or next year rather.

Gandhi: Okay. Thanks a lot.

Moderator: Thank you very much. We have the next question from Saburi Hazarika from Phillip Capital. Your line is unmuted, you may please go ahead and ask your question.

Saburi: Yeah. Sir, I just wanted some of the breakup between depreciation and lifting cost for natural gas currently.

Management: Depreciation and depletion is around $1.8/mmbtu and OpEx is 1.5.

Saburi: OpEx is 1.5. Right, sir. And sir, just one more question. What's your acquisition strategy right now in the current oil price scenario? Are you aggressive on like looking into properties abroad anywhere else?

Management: See properties are not acquired or never acquired at current prices. When the prices are 110, no one will acquire at that price. And today the prices are 30, no one will sell at 30. As far as acquisition is concerned, we are open for acquisition. Any property which is viable on commercial grounds provided it is available. But you will agree that no property will be available at $30. Yes, we are looking for acquisition, definitely, that is a fact.

Saburi: Okay. Sir, and just one last question. What is the current production in Carabobo, Venezuela?

Management: Last numbers, to be frank, I don't have. And will you mind if I check up with my office and come back to you?

Saburi: Yeah, sir, that will be okay.

Management: You can drop a mail to Mr. Ranganathan and we'll respond to you. Is that okay?

Saburi: Yeah, that should be fine. Thanks.

Management: Okay.

Moderator: Thank you very much. We have the next question from Abhishek Dutta from Prabhudas Liladher. Your line is unmuted, you may please go ahead and ask your question.

Abhishek: Thank you, sir. Sir, can you give an update on the Russian acquisition which we recently did? When will we get the production benefit of that?

Management: This is going on track and we hope to close the deal finally maybe March end or April beginning. And from day one itself we get the production. As on today, production is around 440000 barrel a day. Out of that, our share is 15%, our share will be total around 65000 or 66000 barrel a day.

Abhishek: Okay. And secondly, sir, can you give an update on the gas compression project which you have to do for the entire onshore production?

Management: ONGC?

Abhishek: Yeah.

Management: Gas compression, gas projects are all working, always going on. And normal whatever redevelopment projects are there, these are going on as well.

Abhishek: Because recently, sir, there was some report that PNGRB has asked for gas dehydration units to be installed on all…

Management: Yes. See, that dehydration is only for removing moisture from already produced gas when we send in the pipeline. Then in order to remove that we have to put the GDU. So the GDU projects are in the process of getting awarded.

Abhishek: Sir, total, how much CapEx will be involved in that, sir?

Management: We are hiring the services, because if we do ourselves it will take a lot of time. So for the time being we are hiring the services, GDU services are on contract basis, and only one unit has started in and other units will come one by one.

Abhishek: Okay. Thank you.

Moderator: Thank you very much. We have the next question from Mr. Rohit Ahuja from Religare. Your line is unmuted, you may please go ahead and ask your question.

Rohit: Yeah, hi. Thanks for the opportunity, sir. I wanted outlook on operating cost. How do we see it moving forward. And I remember I mentioned quarters back that looking at reduction in cost as many of the tenders get renewed. What kind of reduction can I look at in terms of domestic assets and also for OVL?

Management: See, as far as the domestic assets are concerned, the operating cost may be we get some benefit from the next year because of this reduced service cost. Because we already factored in the contract, say one or two years back. So this contract normally runs for three years. So when these contracts get over, we will get the benefit of the new contracts at a lower price.

Rohit: How much reduction are we expecting from the current run rate?

Management: That depends. When we open the tender, then we'll come to know what the price is. But it is expected because recently when we opened the price of the rigs we got around 30-40% reduction compared to the previous rates.

Rohit: Right. And also OVL you mentioned, your cash cost are at about $17-$18 a barrel. Do we see any reduction?

Management: Yes, this I'm talking about for this current half year. We have a cost of around I think cash cost 16 plus. And some impact has already come, and going forward, because some of the contracts are still being negotiated by the operators. Maybe some more impact will come. And as far as levies are concerned, most of the countries where we are working levies are *ad valorem*. So when the prices are low, naturally levies impact is there. So that also brings the cash cost downwards.

Rohit: So how much do you expect it to be for the current quarter, how much will it be going forward.

Management: See, you will agree that the cost reduction doesn't happen overnight or in one month. So what we expect that maybe 20-30 cents in this quarter and going forward again 50 cents.

Rohit: And lastly on Mozambique assets. You mentioned you don't need to take impairement as of now seeing your calculations. Would delay in the implementation of the project or development (technical difficulty) your reason for impairment?

Management: No, basically FID is being submitted some time in end '16 or early '17. And we expect the first gas sometime in '19 end or '20 beginning. Two months delay in such big projects is nothing unusual. Rather that is very good if there is two months delay or six months delay. As of today, we don't expect much delay in execution of this project.

Rohit: Right. Sir, briefly can say what sort of breakeven LNG price you're looking at for this project?

Management: If I'm honest, I really don't have that price to be frank as of now. And to be frank, OVL we do the calculation of impairment in annual accounts only because we have to get the results from operators quarterly. We are not able to get the results by the time we finalize the accounts. So at the time of the annual accounts, we'll do it. And then let us see.

But I don't think there'll be any impairment as far as Mozambique results are concerned.

Rohit: Right. That could be a major reason, because of the increase in reserves?

Management: Oh, that is the biggest reason, because reserves when we took it was estimated to be around 35 TCF. Today if I'm not wrong, we are talking about 75-plus TCF.

Rohit: Okay. Would that also bring down the…

Management: Naturally, naturally. Yeah.

Rohit: Thanks for this, sir.

Management: Yeah.

Moderator: Thank you very much. We have the next question from Mr. Vikas Jain from CLSA. Your line is unmuted, you may please go ahead and ask your question.

Vikas: Hi, sir. On OpEx, although we are saying that we're looking for savings, as I say, the nine-month OpEx is up 30% y-o-y. Can you give specific reasons for that, I mean because it's been happening every quarter for the last three quarters. So is there any particular reason why, and should we assume that this is the new rate of OpEx?

Management: No, no. Actually you see, the OpEx is inclusive of various elements. One of the elements is we have started the Dahej plant called C2-C3 Plant. So we are buying LNG and then producing this… Now we are producing LPG. So that gas purchase cost is also included in the OpEx. So that amount is around Rs 426 crores in nine months. And for three months it is Rs 286 crores. So that is one of the elements. Then second element is that some work over jobs we have to do because of the safety reasons and even for some operational reasons. And we hope that next year it will be reduced to some extent, because it is not a regular one, we can do as per our requirement. And third thing, OpEx increase compared to last year is because we had hired one FPSO for cluster 7 field. It was started last year in March.

So that last year impact was not there. This year that impact has come. So but next year if you see, this OpEx number will continue. It will be less than this, the increase will not be there to this extent.

Vikas: So basically what you're saying is that 4000 crores per quarter is the new normal.

Management: Rs 4000 crores is there, including the purchase of LNG for C2-C3 Plant

Vikas: Yeah, I understand.

Management: And OpEx, we may get some reduction in the work also. So we can take around 3500 crores for that purpose, for normal operation.

Vikas: Sorry, 3500 crores? Okay. Just one more thing, for this impairment, have you also assumed any change in CESS? Because since you mentioned that this impairment could be kind of could reverse even with the $10 kind of a change, if there is a positive reduction in CESS price, that itself could give you $6-$7.

Management: See, that way we already factored that in our working.

Vikas: So what have you factored on CESS, cut to what kind of levels?

Management: We have taken around 10% ad valorem…

Vikas: That is already factored in. And if there is a change in gas price as would happen most likely in April and then in October, so when would you calculate or recalculate for any impairment on gas? Would it be still roughly the end of next calendar or would you do it whenever the changes…

Management: I think March end… we'll do the calculation in annual accounts, so March 16.

Vikas: Okay. But the gas price will be applicable from April. You know it and you do the calculation.

Management: We will take that price at that point of time.

Vikas: Okay. And for OVL, could I have a breakup of this 8500 crore CapEx? What is the key, I mean, not really a full breakup but what are the key projects where you're spending this number?

Management: One second, let me see if I have it. See, as far as OVL is concerned, main CapEx is on development and producing assets. And if I give you the breakup, one second, I will give you the breakup. 6000 crore roughly is on producing asset.

Vikas: No, basically, do you have the assets that we are talking of? I mean, is it Russia, or is it Sakhlalin or is it…

Management: Yeah, Russia is Sakhalin only. We have Columbia, we have Sudan, Venezuela of course there not much CapEx. Then we have this BC-10, then we have…

Vikas: Sorry, sir. What I mean is that at this…

Management: Brazil.

Vikas: No, sir. What I mean is that of this 8500 crores, the top three-four projects, I mean how much are they accounting for and which are those?

Management: Main is basically Sakhlalin.

Vikas: Okay. That is how much?

Management: That is Russia. That alone is around I think 39% or so.

Vikas: Okay. And just one more thing. Some of your projects like the heavier project in Venezuela, are they selling at nearly single-digit crude prices right now?

Management: Venezuela?

Vikas: Yeah. Since they have heavy oil.

Management: No, no. There's no single digit. Single digit I think you might have read in the newspapers, that is in Canada. That is selling at $9 or $10.

Vikas: Okay. And this one would be like what, $15 types or what is the discount? Has that discount is definitely widened, right?

Management: Yeah, it is more than that. And to be frank, projectwise number I do not carry. I have numbers basically for OVL…

Vikas: Yeah. Thank you.

Management: Whenever you come to Delhi, you are welcome. We'll give you the number, not an issue.

Moderator: Thank you very much. So we have the next question from Mr. Neeraj from Goldman Sachs. Your line is unmuted, you may please go ahead and ask your question.

Neeraj: I have one question on the production growth. Can you give some guidance on the production growth along with the historical last few quarters how you have witnessed the natural decline rates.

Management: Most of the production growth will come from the marginal fields, development projects which we have taken in offshore. So that's how. And there is one project we have taken up in onshore which is Gamij, where we expect a growth in production.

Neeraj: And about the natural decline rates?

Management: We are already arresting the natural decline. So as such, there is not much of the decline. If you consider the current production compared to the previous year, the production is more or less stagnant.

Neeraj: What is the percentage?

Management: we are arresting the decline by the various IOR/EOR schemes and if you talk in terms of Percentage decline it will be in the order of 3 to 4%. And this new production from new fields is also taking care of the decline from old fields.

Neeraj: Okay, sir.

Moderator: Thank you very much. So we have the next question from Mr. Rakesh Sethi from Morgan Stanley. Your line is unmuted, you may please go ahead and ask your question.

Rakesh: Yeah, hi. Thank you, sir, for the opportunity. On the Rs. 290 billion of CapEx that you guided for FY17, could you just make us understand this, is any savings built into that? What I mean to say is this the reduction in the activity there for the CapEx has come down or it's more of a function of the activity levels remain the same, and therefore the CapEx fell down to 15%?

Management: Yeah, the activity level is the same. There's no reduction in the activity levels.

Rakesh: Sir, this is purely the savings which are building in

Management: Yeah, this maybe because of the savings, yes.

Rakesh: Okay. And is it fair to say oil prices remain where they are, let's say, about $30-$40 per barrel. This is the ongoing number you can work with even at these prices?

Management: See, CapEx numbers it may change from year to year. So it depends on what projects we are taking up in future. But around $40 we are able to sustain this CapEx.

Rakesh: Second on the production growth. If I look at the projects which are under development, I think there are about 15 projects under development of which three continue to remain in implementation. The rest of them have already been completed or in phase of ramp up. We have not seen any corresponding increase in the production so far. What I mean to say is if I look at the pipeline of your projects which is to come in next 12 months or 24 months, it seems to thin than what it was, let's say, two years back and still have not seen the production growth. And then we're also talking about some of these projects getting deferred because of unviable economics. So I'm just trying to figure out how do you see the production coming up with the current projects you have in the next 12 months and 24 months and 36 months.

Management: As far as oil goes, yes, marginal growth if at all. But in gas, we do envisage some increase in production from the existing level of 21.8 bcm to 24.6 bcm we expect in the coming year.

Management: That is really coming from the daman development field which we're expecting to complete in 16-17. And we have another project Vasishta and S1 which will come in '17-'18. So there is a sizeable improvement in the gas production expected. As far as the oil is concerned, our two key projects are going to come on line i.e. B-127 that will come in the next year. Then we have WO16, which will start from the next year, 1st April. So we are expecting around 20,000 barrels production from these two fields to come on. These are all brand new fields. And we have a redevelopment projects of Mumbai, south redevelopment, north redevelopment. That will also add some to my volumes. So we expect some marginal growth in the production to come during next two-three years.

Rakesh: Okay. Thank you very much.

Moderator: Thank you very much. We have the next question from Mr. Vishnu from Spark Capital. Your line is unmuted, you may please go ahead and ask your question.

Vishnu: This is Vishnu again. Thanks for the question again. In case there is 5% increase in custom duty, will ONGC get the benefit across entire production?

Management: Yes. We will get, I mean, not the entire benefit, and that we have COSA based on that agreement with the oil refinery. We will get for offshore crude the benefit of customs duty.

Vishnu: And that will be what, I mean totally just to get a sense as to what percentage of your production will get this benefit. Around 70?

Management: Yeah.

Vishnu: Okay, sir, thanks.

Management: Mr. Souradip?

Moderator: Yes, sir.

Management: I think nobody is there online. I think we call it off…

Management: Are there more questions, Souradip?

Moderator: No, sir, not at this point of time.

Management: Okay. So unless there are more questions, I think we can call it off. Thank you to all the investors and the participants. Thanks to you. And before Mr. Patel takes over, you want to say something?

Moderator: No, sir. Mr. Patel can go with the closing comments.

Patel: Thank you very much for all the participants and all the questions you have asked. And hope that you are satisfied with our answers. And if you have any further questions, you can always follow on e-mail or phone call .Thank you very much.

Moderator: Thank you very much, sir. I would like to thank all the investors for joining us. Hope you all have spent some useful time. That does conclude the session. Wish you all a great evening ahead. Thank you, everyone, for joining.