



**“2<sup>nd</sup> Quarter Financial Year 2016  
Earnings Conference Call of ONGC Limited”**

**06<sup>th</sup> November, 2015**



**SPEAKERS: Mr. A. K. Srinivasan, Director (Finance)  
Mr. A. R. Patel, ED-CCF  
Mr. Alok Saha GM(F&A)-HCA  
Mr. J. B. Bansal, GM, ONGC Videsh Limited  
Dr R. M. Sati, DGM-CP  
Mr. S. Ranganathan, CM (F&A)-IRC**



**Moderator:**

Good evening, everyone. Thank you for standing by and welcome to Q2 FY16 earnings conference call of ONGC Limited. For the duration of presentation, all participants' lines will be in listen-only mode. We will have a Q&A session post the presentation. So without any delay, I would like to now hand over the call to Mr. A. K. Srinivasan, Director, Finance, ONGC. Thank you and over to you, sir.

**A. K. Srinivasan:**

Good evening, ladies and gentlemen. I am A. K. Srinivasan, Director, Finance, ONGC, and on behalf of ONGC and my subsidiary company, OVL, I welcome you all in this ONGC earning Call for Q2 FY16. Thank you all for joining us on the call. I am also joined by my colleagues, Mr. A R Patel, ED CCF, Mr. Alok Saha GM-HCA, Dr RM Sati, Mr. S. Ranganathan of Investor Relations Cell and also I have Mr. J B Bansal, GM -OVL as I mentioned about my 100% subsidiary company, ONGC Videsh Limited.

The financial results for the second quarter and half year ended September 2015 have been taken on record by ONGC's Board today, i.e. 06th November 2015. 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 Rs 4,842 Crore during the second quarter of FY'16 as against Rs 5,445 Crore during second quarter of FY'15, a decrease of Rs 603 Crore (i.e. 11.1%). However, the profit after tax for the first half of FY'16 is Rs 10,302 Crore as against Rs 10,227 Crore during the first half of FY'15, an increase of Rs 75 Crore (i.e. 0.7%).

The decrease in PAT in Q2 FY15 is mainly due to lower VAP sales realization by Rs 1,144 Crore. Further, the decrease in PAT is attributable to decrease in interest and dividend income by Rs 278 Crore, increase in operating expenditure Rs 851 Crore and DD&I cost Rs 420 Cr.

However, this decrease was off-set by decrease in statutory levies (Rs 183 Cr), Government of India's share of profit



petroleum (Rs 311 Cr), exploration cost written off (Rs 179 Cr), provisions and write off (Rs 12 Cr.) and decrease in tax burden (Rs 295 Cr). Further this decrease in PAT was off-set by an increase in the Gas sales realization (Rs 942 Crore), marginally by crude realization (Rs 80 Cr) and non-operating income (Rs 54 Cr).

The increase in PAT in H1 FY16 is mainly due to higher crude and gas realization by Rs 1,059 Crore & Rs 1,575 Crore respectively, increase in operating income (Rs 56 Cr) and non-operating income (Rs 125 Cr), decrease in statutory levies (Rs 370 Cr) and decrease in exploration cost written off (Rs 2,462 Cr.). Further the increase in PAT is attributable to decrease in the Government of India's share of profit petroleum (Rs 661 Cr).

However, this increase of PAT in H1 FY16 was off-set by lower VAP sales realization by Rs 2,181 Crore, decrease in Interest & dividend income Rs 438 Crore, increase in Operating Expenditure (Rs 2,379 Cr), increase in DD&I cost (Rs 894 Cr), Increase in provisions and write off (Rs 33 Cr.), loss due to Exchange variation (Rs 178 Cr) and finally by an increase in tax burden (Rs 181 Cr).

Our share of subsidies towards under recoveries of oil marketing companies during Q2 FY16 stood at Rs 596 Crore as against Rs 13,641 Crore in Q2 FY15. The same for the first half of the current fiscal stood at Rs 1,729 Crore as against Rs 26,841 Crore for the first half of FY15.

The gross sales revenue for Q2 FY16 is higher by Rs 190 Crore, an increase of 0.9% at Rs 20,615 Crore as against Rs 20,425 Crore in the corresponding quarter of previous year mainly due to positive price variance of Gas and favorable quantity variance of Crude amounting to Rs 973 Crore and Rs 389 Crore respectively, off-set by a negative price variance of crude (Rs 309 Cr), Value Added Product (Rs 1,056 Cr) and un-favorable quantity variance of gas (Rs 31 Cr) & VAP (Rs 66 Cr). However this increase was further supplemented by a decrease in the profit petroleum surrendered by Rs 311 Crore.

The gross sales revenue for H1 FY16 is higher by Rs 1,117 Crore, an increase of 2.6% at Rs 43,355 Crore as against Rs 42,238 Crore in the corresponding first half of previous



year mainly due to positive price variance of gas and crude by Rs 1,861 Crore and Rs 670 Crore respectively and favorable quantity variance of crude by Rs 389 Crore offset by a un-favorable quantity variance of gas & VAP (Rs 286 Cr & 272 Cr.) and negative price variance of VAP (Rs 1,870 Cr.) and further supplemented by decrease in the profit petroleum surrendered, by Rs 661 Crore.

The gross billing for crude in the nominated blocks during the second quarter of the current fiscal was at USD 51.24/bbl as against USD 102.23/bbl in the same period of last year, that is a substantial decrease of 49.9%. However, after allowing discounts by way of our contribution towards the under recoveries to downstream marketing companies, the net realization for crude oil in this quarter was USD 48.83/bbl as against USD 41.45/bbl in the same period of last year which amounted to an increase of 17.8% mainly due to decrease in discount from Rs 13,641 Crore in Q2 FY15 to Rs 596 Crore in Q2 FY16 as well as depreciation in INR vis-à-vis USD from Rs 60.59 in Q2 FY 15 to Rs 64.91 in Q2 FY16. Similarly, the gross billing for the first half of this year stood at USD 57.33/bbl as compared to USD 105.75/bbl for the first half of last fiscal. The net realization after discount for the first half of the current year was USD 53.72/bbl vis-à-vis USD 44.22/bbl in the first half of last year. The exchange rate of rupee versus dollar stood at Rs 64.23 vis-à-vis Rs 60.19 in the first half of FY15. Thus the post discount realization for crude in rupee terms stood at Rs 3,169/bbl in Q2 FY16 vis-à-vis Rs 2,511/bbl in Q2 FY15 which amounted to an increase of 26.2% in INR. Again, the net realization in rupee term increased i.e. from Rs 2,661/bbl in H1 FY15 to Rs 3,450/bbl in H1 FY16 being an increase of 29.7%.

Interest and dividend income has decreased by Rs 278 Crore in Q2 FY16 from Rs 1,229 Crore in Q2 FY15 to Rs 951 Crore in Q2 FY16. Again, there is decrease in the interest and dividend income in H1 FY16 from H1 FY15 by Rs 438 Crore.

The operating expenditure of Q2 FY16 has increased by Rs 851 Crore to Rs 4,616 Crore from Rs 3,765 Crore and during H1 FY16 the operating expenditure has increased by Rs 2,379 Crore to Rs 9,668 Crore from Rs 7,289 Crore mainly on account of the increase in Work-over



Expenditure, Pollution Control, Administrative Expenses, Transportation of oil and gas, Un-allocable Rig Cost, Contractual payment and Research & Development Expenditure. Similarly the increase in first half of FY16 in Operating Expenditure by Rs 2,379 Crore over first half of FY15 is attributable to increase in the above elements of expenditure including Manpower.

DD&I cost for Q2 FY'16 stood at Rs 2,874 Crore as against Rs 2,454 Crore in Q2 FY'15 i.e an increase of Rs 420 Crore. The increase in DD&I cost in H1 FY16 is Rs 894 Crore. This increase both in Q2 FY16 and H1 FY16 is attributable to increase in depletion due to capitalization of facilities which is partly off-set by a decrease in depreciation mainly due to reclassification of Oil & Gas Assets and Facilities which were earlier depreciated, now depleted.

The exploration cost written off has decreased in Q2 FY'16 to Rs 1,733 Crore as compared to Rs 1,912 Crore in Q2 FY'15, a decrease of Rs 179 Crore. The decrease is on account of lower unsuccessful well cost of Rs 154 Crore and survey expenses by Rs 25 Crore in Q2 FY16. Again, the exploration cost written off has decreased during H1 FY16 by Rs 2,461 Crore i.e. from Rs 5,740 Crore in H1 FY15 to Rs 3,279 Crore in H1 FY16. The decrease is on account of lower unsuccessful well cost by Rs 2,632 Crore in H1 FY16 off-set by increase in survey expenditure by Rs 170 Crore in H1 FY16.

Provisions and write off has decreased by Rs 12 Crore i.e. from Rs 59 Crore in Q2 FY15 to Rs 47 Crore in Q2 FY16. However, provisions and write off has increased by Rs 38 Crore in H1 FY16 i.e. from Rs 73 Crore in H1 FY15 to Rs 106 Crore in H1 FY16.

During Q2 FY16, the statutory levies stood at Rs 5,329 Crore as compared to Rs 5,512 Crore in Q2 FY15, i.e. a decrease of Rs 183 Crore (3.3%). Similarly during H1 FY16, the statutory levies also decreased by Rs 370 Crore (3.2%) from Rs 11,405 Crore in H1 FY15 to Rs 11,035 Crore in H1 FY16. The main reason for decrease in statutory levies both in Q2 as well as H1 FY16 is on account of decrease in crude oil royalty attributable to



decrease in average selling price of crude oil off-set by an increase in royalty on natural gas due to increase in gas price and also increase in Cess due increase in quantity of crude oil sold both in Q2 FY16 and H1 FY16.

Well, friends, with this I finish my briefing of the second quarter results for Financial Year 2015-16. We will be very happy to take questions from you. I and my team members would try to answer your questions.

**Moderator:**

Thank you so much, sir. With this, we will open the floor for a Q&A interactive sessions. Participants, if you wish to ask a question, you may please press “0” and “1” on your telephone keypad and wait for your name to be announced. The first question of the day we have from Prabhu Singh from IDFC Securities. Your line is unmuted.

**Probal Sen:**

Good evening, sir. Thank you for the opportunity. I had a couple of questions mostly on crude production not so much on the quarter. Just wanted to understand, you know, status of the east coast development I mean, we obviously heard a lot of things about that particular asset, but have we, reworked any timelines for the development? So can you just get me some sense of that?

**A. K. Srinivasan:**

As far as the 98/2 the east coast development is concerned, we had contemplated that the first gas will be available by 2018 and oil in 2019 and we still look for doing the development by that timeframe. But, however, due to the depressed conditions of the gas pricing, we are just trying to optimize the entire CapEx build up and based on that we would like to take it further and definitely we would like to keep the target date of production 2018 and 2019.

**Probal Sen:**

Sir, just a follow-up, is it possible now to share any details of, you know, you spoke about the CapEx optimization that is being planned, you know, so in terms of just pricing that, you know, you are looking at and is the government still looking at giving you a premium or is it still off the table and is only for new discoveries.



**A. K. Srinivasan:**

No. Already in this particular regard the company has taken up with the ministry that we should be given a premium on the gas price. But, however, the government has yet to take a decision and we are just waiting when this thing will happen.

**Probal Sen:**

And it's not possible to share, sir, the CapEx plan for this?

**A. K. Srinivasan:**

No. Because the CapEx is not yet fully firmed up, so there's no point in sharing any numbers at this point of time. When the real numbers are in place, then we can definitely share that.

**Probal Sen:**

Fair enough, sir. That's all from my side. I'll come back if I have any question. Thank you.

**A. K. Srinivasan:**

Yeah. Please. Thank you very much.

**Moderator:**

Next question we have from Vinay Jay Singh from Morgan Stanley. Your line is unmuted.

**Vinay Jay Singh:**

Thank you so much, sir. Thanks for the opportunity. Again, it was the same question which was here asked earlier. If I were to look at crude production both on standalone as well as for JV, you know, we've been hearing spending a lot of money. We've seen some growth come this quarter, how do we look at it one year from today? That's my first question.

**A. K. Srinivasan:**

Presently, see, you have already seen there is a volume increase from what do you add from the last year and already we are in this first half itself we have done more than the last year numbers and we expect these numbers to further increase because there are some of the development projects WO 16 and all are likely to come up by this second half in this year, plus there are some of the new projects which are under implementation will also come up in the next year. We see this increase will be definitely there from current levels to an extent of about 26.5MMT or so.

**Vinay Jay Singh:**

So you are saying .....

**A. K. Srinivasan:**

Including the joint venture share.

**Vinay Jay Singh:**

Including the joint venture share?



- A. K. Srinivasan:** Yes. If we would look on the standalone basis, we would definitely be around 23.5 MMT or so for FY 17.
- Vinay Jay Singh:** For the average of this year?
- A. K. Srinivasan:** No. I am saying of the next year FY 17.
- Vinay Jay Singh:** So the numbers in the next 12 months, so in F17 your average should be about 23.5 million tons for standalone production, is that what you are saying? I thought it would be much higher based on the production you are making.
- A. K. Srinivasan:** No. Actually the marginal fields which we have already contemplated like B193, Cluster 7 are all adding into my present volumes and these are all small fields which have a peak of about two to three years and they start declining; they don't have a long plateau, so we can't expect these volumes to continue for a longer duration. But definitely to supplement the drop we are having some new projects which are under implementation which were to come a year back but likely to join us in the current year for the second half of third quarter onwards and some of the volumes will be getting added during the next year number so that these volumes will definitely remain sustainable and increase by some volumes.
- Vinay Jay Singh:** So just to be very clear, this quarter you will produce 5.67 of standalone as well as condensate put together that last year was 22.3 and that number you are saying in F17 would be 23.5, have I understood it rightly?
- Management:** Yes, including condensate for FY 17 around 23.5 to 24 MMT for standalone.
- Vinay Jay Singh:** For fiscal 17?
- Management:** Current year it should be doing about 22.5 or so for standalone.
- Vinay Jay Singh:** Okay. So you will be somewhere around 22.7 to 23 for the current year and next year 23.5, right?
- Management:** Exactly.





**Vinay Jay Singh:**

One last question, sir. If I look at your depreciation, it's obviously been very variant across the last couple of quarters. This quarter it was lesser you mentioned about dry wells as well, how do I look at a year as a whole?

**Management:**

See, what has happened, we have been doing a lot of investment into development fields and my asset-base is increasing, however, whatever upgradation of reserves / reserve accretion contemplated is in the process and these numbers would go up and we don't expect any major significant increases in the coming years in the DDA, so as regards these numbers this may be considered on a flat basis for analysis purpose.

**Vinay Jay Singh:**

So because, you know, the difference between last quarter and this quarter of depreciation put together was about 2000 crores, so at this quarter being lower it was about, you know, 4360 crores, so do you think that's a good number for run rate for the next three quarters?

**Management:**

No. This cannot be assumed as a run rate. It depends on the number of exploratory successes and failures and the number will change with reference to that. We assume these numbers should be more or less flat. That's what we look at.

**Vinay Jay Singh:**

Okay. Done, sir. Sir, again, you know, going back on production the only reason I asked that is if you look at the way the formula is being set, you know, for both LPG and kerosene, it seems to me that even if oil prices were to go any time higher, you know, to over \$60 even if it were to be at \$80 or \$90, your oil price would be kept at the current production level at a net realization of 60 for your standalone production plus condensate, so till you don't increase your production, you are not going to see much of a net realization, so obviously there's every incentive to increase production which is why I asked my earlier question, but your comment there was that, you know, you are increasing but the declines are so much that you will increase marginally, right?

**Management:**

Basically, there are 37 fields under cluster development which have already been undertaken wherein we have already invested lot of capital and these projects are just in the final stage now. They would be coming into production



mode now, so that's why we are saying the production is bound to go up in future.

**Vinay Jay Singh:**

Okay. Thank you so much, sir.

**Moderator:**

Thank you, sir. Next question we have from Nitin Tiwari from Antique Stock Broking. Your line is unmuted.

**Nitin Tiwari:**

Hi, sir. Good evening. Thanks for taking my questions, there are couple of them. My first question would be related to your CapEx number, so I would like to understand that what is the CapEx number that we are look at for this year and next year and whether that's one standalone or consolidated and second whether that includes a portion of like, you know, amount which will be spent on acquisitions, if at all, the first question is that.

**Management:**

The CapEx for the ONGC is this current year the budget estimates were Rs. 36,249 crore and next year the numbers should be around 34,000 to 35,000 crore. We are yet to firm up our budget numbers. And as regards the acquisition budgets and all these are being planned by ONGC Videsh and they will be sharing the numbers; the colleagues from OVL are with me. They will share.

**Management:**

See, as far as OVL CapEx is concerned, the CapEx for ongoing project is around \$1.5-1.6 billion and for acquisition really we can't plan in advance. It can be any amount ranging into billions as it happened last year when we acquired Mozambique, right, so we are on the lookout for acquisitions and for this year I think good governance and confidentiality I may not be able to say any acquisition which is in the pipeline and, of course, one acquisition that is Vankor that is already in the public domain that is likely to be closed sometime in March 2016, maybe, slightly later, but as on today, we feel sometime in March or April and that deal amount is around \$1.5, \$1.3 million whatever it is. And, frankly, whenever we acquire in April partly it is financed by our parent company that is ONGC and partly we hope the market would fund it. In brief your question that acquisition budget, acquisition budget we have the full support of our parent, we have the full support of government, it's not an issue, but really we can't plan in advance that it will be 5 billion or 4 billion or 3 billion, but



definitely we are on the lookout for acquisitions at appropriate time and appropriate price. Okay?

**Nitin Tiwari:**

Right. So the CapEx that we are looking at like 36,000 odd crores, how much of that CapEx, what percentage would be attributable to exploration expenditure in this year?

**Management:**

12 to 14,000 crores is for exploration.

**Management:**

See, from the total investment of 35,000 to 34,000 the distribution on particularly in case of exploration is in the range of about 40% on exploration effort and development that is including the facilities put together it should be about 57% in totality. And then we have about minor numbers of 2% on R&D and 1% for any integration activities which we have undertaken.

**Nitin Tiwari:**

Right. Sir, my second question is related to the other operating expenses in your P&L, so from the past three quarters there is a rising trend in the other expenses and you also explained that due to rising cost of work over expenditure and other stuff, so I wanted to understand that if that is a run rate that we need to follow going forward or there is a possibility of a decline or like, you know, an update in that expenditure number as well. So if I look at like, you know, in comparison to previous quarter, it has gone up from about 3000 odd crores to about 4500 odd crores.

**Management:**

See, in totality my operating expenditure has gone up by 851 in the Q2 vis-a-vis the Q2 of last year.

**Nitin Tiwari:**

Yes, sir.

**Management:**

But if you look at in my half year number, it has just gone up by 2379.

**Nitin Tiwari:**

Right, sir. So what I wanted to understand is that are we increasingly getting into work over operations which is leading to an uptake in this expenditure number and this is the trend which is going to continue because...?

**Management:**

No. This is not the trend. Basically, what happened there are certain work over activities which we need to undertake for maintaining certain safety norms and all, due to which



there have been some increases, but this is definitely not the trend.

**Nitin Tiwari:**

Right, sir. Why I asked this question is because if I look at your crude and gas realization, both were higher in this quarter vis-a-vis last year and we still ended with a lower profit number, so I believe that a large part of that can be attributed to this higher other operating expenses.

**Management:**

It will not be a continuous process because we will be just checking on these numbers.

**Nitin Tiwari:**

Right, sir. And, sir, third and last question is basically on the dispute on which like, you know, there is a report which has also come up from a consultant which is on your shared gas which has been produced by RIL, so one argument which came up was that the gas actually belongs to the nation and not to the operator, so RIL might not be like, you know, liable for the gas which has come out because after all the gas has been sold on the other country, so what's your take on that?

**Management:**

The report is yet to be submitted by the Govt. and as such all news in this regard is only at draft stage, so I cannot make a comment at this stage.

**Nitin Tiwari:**

Right. So that would be all from me. Thanks for taking my question.

**Moderator:**

Next question we have from Sabri Hazarika from Philip Capital. Your line is unmuted.

**Sabri Hazarika:**

Yeah. Good evening, sir. Sir, I have a couple of questions. The first one is what is the status of Daman, Vashishta and Basin E1?

**Management:**

See, these new projects which are Daman they have already awarded and it is progressing as per our schedule and we expect our first gas from Daman to start somewhere in 2017-18. And as far as the Vashishta is concerned, it's few of the contracts have already been awarded and we are just in the verge of awarding the installation contract for that and we expect that production from there should be available to us in 2017 midway of the calendar year.



- Sabri Hazarika:** Okay. And Bassein ?
- Management:** Bassein is already awarded. It is under implementation and contractor is working on it and it is going as per our plan schedule. We expect that project to get completed by 2017-18.
- Sabri Hazarika:** Sir, what should be the incremental gas that you are expecting from these three projects?
- Management:** I think Bassein should be above 20 BCM of gas for a period of 15 years. Daman should give me around 8 MMCMD of gas a day and Vashishta should be giving me a gas of about 5 MMCMD daily for another 9 to 10 years.
- Sabri Hazarika:** Okay. This 8 MMCMD Daman gas it would be like it will be gradually ramped up, how it would be the production process?
- Management:** I am talking as a peak level that all the wells and all are getting completed, I think, it has to drill more than about 20-30 wells. But initially it will start with about two to three. Yeah, Daman is about 27 BCM. and it should be – that's a peak number of 8 MMCMD.
- Sabri Hazarika:** Sir, second question is how much CapEx you have done for 1H FY16?
- Management:** Current year?
- Sabri Hazarika:** Current year, yeah.
- Management:** CapEx plan is about 36,249 Crore and we have done about 15,000 crores. It's about 15,000 crores.
- Sabri Hazarika:** And, sir, one last question. What is the profitability of ONGC Videsh?
- Management:** ONGC Videsh Q1 profit was around 587 crores, Q1 FY 16.
- Sabri Hazarika:** 587 crores?
- Management:** And Q2 results are yet to be prepared; our board meeting of ONGC Videsh is scheduled next week and then we will be able to share the numbers.



- Sabri Hazarika:** Q1 profit after tax was 587 crores?
- Management:** That's right.
- Sabri Hazarika:** Okay. Thank you so much.
- Management:** Okay.
- Moderator:** Next question we have from Raj Gandhi from Sundaram Mutual Funds. Your line is unmuted.
- Raj Gandhi:** Thanks for the opportunity, sir. Sir, just under this open acreage licensing, you know, we have been appointed as a nodal agency and we are supposed to do some 40,000 square kilometres of seismic, so, sir, any update on this where are we in terms of this work commitment to be fulfilled?
- Management:** See, this total acreage survey and all this has been assigned to DGH and in turn ONGC and Oil India are undertaking this exercise and we have to complete our share of work which is getting upgraded in the next four years and we are already in the process of awarding our tenders to execute the job.
- Raj Gandhi:** So you have to do this over next four years?
- Management:** Yes. It is for three to four years.
- Raj Gandhi:** Okay. So you are in the process of reducing tenders and all?
- Management:** That, I can't comment.
- Raj Gandhi:** So how will it work because, see, it's asset DGH but we are a nodal agency, so how does it work the entire thing because we will have to do lots of...?
- Management:** We are not aware about this. However, because it's the government and the DGA has to take the decision about it. We are just been asked to execute the survey activities which we are going to undertake.



**Raj Gandhi:**

So it is like, let's say, so you will be the executing agency, but the CapEx will be on your book or how will be compensated for this?

**Management:**

See, these modalities of reimbursements and all are yet to be decided and we can't make a comment on those at this point of time definitely, but ONGC has been asked to undertake this assignment and ONGC is going forward in doing this job on behalf of the Government of India.

**Raj Gandhi:**

Okay. From when can we start seeing work being done on this?

**Management:**

Already the tenders have been floated from the operating level side in Mumbai and the tenders are likely to get finalized during the third quarter period.

**Raj Gandhi:**

Okay. So basically these awards and all will be done by this year itself?

**Management:**

Yes.

**Raj Gandhi:**

So this is for entire 40,000 square kilometre or?

**Management:**

Whatever the scope has been assigned to us.

**Raj Gandhi:**

Okay. And, sir, just on this gas dehydration that you are doing in this KG Basin so there we believe expenses from what we've heard it it's about 1.3-1.4 rupees per HCM which would dent our profitability of gas business quite a bit, so, sir, any update there how do we plan to deal with that ?

**Management:**

See, basically, the dehydration of the pipeline for wet gas and all that has been already contractually been awarded and it will be shared 30:70 by GAIL and ONGC.

**Raj Gandhi:**

Okay. 30% to you and 70% to GAIL?

**Management:**

It is 70 ONGC and 30 to GAIL.

**Raj Gandhi:**

Okay. And, sir, just on what amount of volumes will we have to do this?



**Management:**

See, it is the volume what is going to be produced from my onshore at KG. The entire volumes will be running through those dehydration processes and these are contractually been higher in the dehydration unit and they started implementing in different field and this will get connected to the transportation lines and GAIL is picking up the gas.

**Raj Gandhi:**

Okay. So what is the total extent of volumes would specify which will have to go through this, about 11-12 MMSCMD will have to go through this?

**Management:**

No. It is not that way. It's about 6 to 7 MMSCMD.

**Raj Gandhi:**

6 to 7 MMSCMD? Okay. Great, sir. Thanks a lot.

**Moderator:**

Thank you, sir. Next question we have from Rakesh Sethia from Morgan Stanley. Your line is unmuted.

**Rakesh Sethia:**

Thank you, sir. My question has already been answered.

**Management:**

Thank you.

**Moderator:**

Next we have Prabul Sen from IDFC Securities. Your line is unmuted.

**Prabul Sen:**

Thank you. Sorry, I am just coming up with one question, sir. With regard to OVL production, any update you can give ?

**Management:**

Yeah. My colleague they are all there.

**Management:**

Sure. OVL production?

**Prabul Sen:**

On OVL production, sir, obviously South Sudan probably still remains uncertain, but Venezuela, Carabobo any progress has been made in terms of certain payments that are outstanding and the heavy oil upgraders that need to be filled in?

**Management:**

See, on Venezuela the discussions are going on. Right now Carabobo is proceeding well, but more definitive decisions or agreements are been arrived at. And on overall basis OVL production we would be roughly at the same level as that of last year; last year we had produced 8.874 MMT. We would more or less be touched in the same figure.





- Prabul Sen:** Okay. Fair enough, sir. Thanks. That's all from my side. Thank you very much.
- Management:** Okay.
- Moderator:** Next we have Vishnu Kumar from Spark Capital. The line is unmuted.
- Vishnu Kumar:** Yeah. Thanks for your time, sir. So firstly on the since we understand that you are in dialogue with the government, any clarity or thoughts that you can give regarding this as to what do you expect something on this or any timelines?
- Management:** See, the request has already been submitted to the government in order to apply hedge at our own basis not as a fixed level and the decision is yet to come forth on that. We still are waiting from the government.
- Vishnu Kumar:** Okay. So this will be ex-royalty or directly on the gross price?
- Management:** Normally, it's a big price which is they levied after being surprised and then fix number is there now as well around should be on the price itself.
- Vishnu Kumar:** Okay. What rate we are working with roughly is that what we are asking?
- Management:** We are not asked specifically, but we should spell out that it should be in the range of 8 to 10%.
- Vishnu Kumar:** 8 to 10%? Any positive thoughts that you at least would expect going forward at least next year something like that?
- Management:** On this particular aspect I can't say. It's the government decision.
- Vishnu Kumar:** Okay. Sir, secondly what will be a rough gas production cost, if you were to say, including onshore and offshore, a lifting cost?
- Management:** Lifting cost?



- Vishnu Kumar:** Yeah. On an average your gas business what will be the total cost?
- Management:** It should be about less than \$2.
- Vishnu Kumar:** Less than 2? And would your F&B cost be about a dollar, sir, roughly, your F&B?
- Management:** F&B should be about on a 2P basis it should be about \$7.
- Vishnu Kumar:** This is for a barrel?
- Management:** Yeah.
- Vishnu Kumar:** This is for one barrel? So it will roughly correspond to about 11.2 per mmbtu?
- Management:** Yes.
- Vishnu Kumar:** Okay. Thank you. Sir, in a scenario, let's say, if you are looking at staring at your gross gas price coming down further, let's say 2 or 3.1, is it possible that we would just about breakeven on the gas business?
- Management:** See, it's very difficult to make a price reduction happening or not happening; I will not be able to, but definitely keeping the decline if it is likely to move and definitely it will be a stress on the management to work on this.
- Vishnu Kumar:** Okay. So in present scenario at least would we go ahead and ask for a reduction in royalty or any other rates similar to what we are discussing?
- Management:** No. If the situation comes, then definitely we will be asking the government for support on that.
- Vishnu Kumar:** Got it. Sir, are we looking at some kind of a reserve write-off because of the fall in prices?
- Management:** As of now, nothing.
- Vishnu Kumar:** Okay. So which means that all of our 2P reserves can be produced at the current levels, is that the right way to look at it?



**Management:**

Yes. This 2P reserves had to be produced for a period of time, so the priorities are going to move up and down over a period of time.

**Vishnu Kumar:**

Just to understand in terms of international, I mean, just giving some examples, let's say, of international standards accounting at least they look at taking writing-off and bringing back depending on crude prices...

**Management:**

No. We do this exercise at the year end and we see the volume and the carrying cost of the asset and based on that we do the impairment test and none of the assets have been found to fall into those domain.

**Vishnu Kumar:**

Okay. So what is the price that you are working with, sir, as far as this assessment goes?

**Management:**

Because we normally take on prediction of a long-term price perception not on the current year.

**Vishnu Kumar:**

Fair enough, sir. Sir, lastly on OVL at, say, 45 or 46 international market like do we breakeven at the EBITDA level? I understand that you said the November 9<sup>th</sup> would be out, but at the EBITDA level if you could just give us some thoughts?

**Management:**

See, I don't have the numbers right now. And you touched the point on this write-down of reserves, impairment and all that and most of the companies and we are not the exception, we do the impairment basically on annual basis. Last year we did the impairment. There was no impairment in any of the asset and since the prices as of now are slightly further subdued, we will be carrying out the impairment again at the time of annual results. Yeah?

**Vishnu Kumar:**

Okay. In March quarter probably we will see some?

**Management:**

Not March quarter, annual results I said. Yeah..

**Vishnu Kumar:**

Okay. Thanks a lot, sir. I'll come back in the queue.

**Management:**

Okay.

**Moderator:**

Next question we have from Rohit Ahuja from ICICI Security. Your line is unmuted.



**Rohit Ahuja:**

Yeah. Good evening, sir. Thank you for this opportunity. Sir, I wanted an outlook on your CapEx plan for the new developments, especially at the 98/2 KG Basin assets. I believe you will be submitting the FDP and I guess the current gas pricing is really not comfortable, so from your perspective do you still go ahead with the development given the current gas price, as I think previous caller mentioned that it could go down to below 3.5, so how do we look at that ?

**Management:**

I think, you would have definitely heard me on that. The FDP, as you rightly heard, has just been submitted to the government. It is under examination. As far as the CapEx numbers are concerned, we are still on the process of optimizing them and based on those optimized number and we would see what decision we would like to take it in the future.

**Rohit Ahuja:**

So this optimization of the CapEx would also include using any of the D6 block assets of RIL or reaching some kind of an agreement in that?

**Management:**

No. We have categorized that entire entity to be developed under three clusters. Cluster one we are not going to go for any development and only cluster II which is the north side of the NDA area which will be taking up for development and southern regions we have in SDA that is the ultra deeper zone we are not touching at all.

**Rohit Ahuja:**

So, sir, given that it is offshore, it's probably, you know, this current gas price clearly not supportive enough, so are you getting any offshore in terms of like the premium gas pricing or some sort of a free pricing when you develop this specific?

**Management:**

I already made a reference that already this issue has been flagged with the government and we are seeking the support on the premium gas pricing or even for the development of the new field, even though the notification does not say the discoveries pre-October 2014 are qualifying under this domain, but still we have put in a request because this is a discovery prior to 2014 October but still the development is likely to happen in the current



environment. So this is the request which is there with the government where they have to take a look at it.

**Rohit Ahuja:**

And, sir, lastly I think on OVL you already mentioned regarding the impairment, but given the current global LNG prices, do we see any sort of adjustment happening for the Mozambique investment given the current gas price globally?

**Management:**

I think again as far as Mozambique is concerned between today and 2020, there are so many variables along with the oil, I mean, obviously you are referring to the reduction in oil prices where all LNG contracts happen with reference to oil index. And, secondly, you would also have noticed that along with reduction in oil prices there's also a very steep reduction in the CapEx and OpEx also being experienced. So at this stage, we as a consortium, have a very good view that there is no deal for any impairment at this asset, in fact, as you have heard from some of the reports, the consortium continues to go ahead with the project in full speed.

**Rohit Ahuja:**

Yeah. So when do you expect the FID to be finalized ?

**Management:**

Sometime early next year.

**Rohit Ahuja:**

So that means the production wouldn't come up before 2020-21?

**Management:**

Yeah. That's the timeframe in which we are expecting these assets to, you know, produce.

**Rohit Ahuja:**

Right. Thank you for this, sir. Thank you.

**Moderator:**

Next question we have from Raj Kambli from Sundaram Mutual Funds. Your line is unmuted.

**Raj Kambli:**

Thanks for the opportunity, again, sir. Sir, just going ahead, you know, as we move into more development projects like KG Basin and plus, you know, like we've got done with most of our work commitments under the nomination blocks, so will our CapEx move towards more of development projects versus exploration or how do we see that?



**Management:**

See, there are lot of options because still we have some blocks wherein we have seen nominated blocks extended up to 2018 and we have to do a lot of work on those blocks and we have to finish them within those timeline, so exploration definitely will have a focus on that. Apart from that, lot of discoveries which we have declared already, approvals for one of the blocks has been accorded to develop i.e. Madanam field which is going to have a big volume and we are going to see it in next two-three years development coming up and that is going to add substantial volume of gas in the onshore of southern region.

**Raj Kambli:**

Okay. So till for at least next two years you have exploration lined up, but is the intensity going down or?

**Management:**

No. We will maintain the intensity because most of the onshore has to be done with our own rigs and all and we have our crew from that, so we will be working on those.

**Raj Kambli:**

Okay. And, sir, just on this exploration just further up you mentioned those open acreage-related stuff you already floated tenders and finalized, so will you award by Q3 itself when you say the tenders will be finalized by Q3?

**Management:**

Yeah. It's almost in the advance stage of tendering and we expect that it should be closed out by Q3 or beginning of quarter Q4.

**Raj Kambli:**

Okay. And just, let's say, it will be even 10,000 kilometres every year kind of even or more backended in that sense or you could give us a view on how much tenders have been floated?

**Management:**

I will not be able to answer this exact quantum of work which go into because the tender details I don't have that right at the moment. So I will not be able to share on that.

**Raj Kambli:**

But broadly you are saying it will be more even and not a backended?

**Management:**

So that's what I am saying the numbers I don't have that. I can't answer your query at all.

**Raj Kambli:**

Okay, sir. Okay. Thanks a lot for the opportunity, sir.



**Moderator:**

Next question we have from Vishnu Kumar from Spark Capital. Your line is unmuted.

**Vishnu Kumar:**

Thanks again, sir. Sir, are we seeing any service contract cost reduction because we are hearing that most companies globally are seeing phenomenal amount of reduction in their overall service cost and CapEx, so from that side are we seeing any benefits yet or, say, the rig cost will whenever it comes for renegotiation we will see the benefits?

**Management:**

Actually, what happened we have recently floated some tenders for rig hiring and we have definitely seen the impact of those cost coming drastically low vis-a-vis what we used to hire them. We used to hire around \$90,000. Those are available to us at the rate of about \$55,000-\$60,000, so we are definitely confident the rates are coming down. So we definitely want to capitalize this situation for hiring.

**Vishnu Kumar:**

Okay. So the question essentially was trying to target whether our overall service cost and OpEx cost could see a material decline, let's say, whenever the contract ends and we go for a renegotiation, let's say, in the next over the one and a half years, 12 to 18 months, is that a possibility?

**Management:**

It is.

**Vishnu Kumar:**

Okay. So our OpEx cost could...? Sorry, sir.

**Management:**

It will have a declining like changes.

**Vishnu Kumar:**

Okay. Thanks a lot, sir. That's it from my side.

**Moderator:**

Once again, participants, if you have any question, you may please press "0" and "1" on your telephone keypad.

**Management:**

I think no one is there. We can close it.

**Moderator:**

Sir, we have questions from Abhishek Agarwal from Macquarie Capital. Your line is unmuted.

**Abhishek Agarwal:**

Thank you for the opportunity, sir. Could you give me some idea on what would be the comfort level for, let's say, leveraging up a balance sheet to acquisition, I mean, I am



just trying to get a sense of what cumulatively or what in the near future is the comfort level for ticket size for acquisitions?

**Management:** Acquisitions?

**Abhishek Agarwal:** Yeah.

**Management:** See, on acquisition front we have the so-called support from the government to acquire more and more in the international market, but that is all on commercial basis. It is positive support from the government and not the pressure so-called. So we are open for acquisition and you must have seen in the last one or two years we have acquired field and latest field we acquired is Vankor field which is already in public domain the documentation is in progress and maybe sometime in March or April next year we will close it. As far as leverage you are asking me, as on today the total loan of ONGC from outside sources it is around, I think, \$4.8 bn that is Rs 30,000 crores and our parent that is ONGC they don't have any loan at all. Some amount of loan is there in our other subsidiary that is MRPL, so on leverage front I think as a group we are in much, much comfortable position. Further, sometimes back I told that CapEx of ONGC Videsh is around \$1.5 billion annually on an ongoing project and that more or less we are able to meet out of our own internal resources; we don't have to borrow either from market or from ONGC our parent. Same way, even ONGC CapEx whatever is happening that we are able to meet out of our internal accruals. So that way you will agree if you look at our balance sheet even at these subdued prices, we are in quite comfortable position.

**Abhishek Agarwal:** Sure, sir. But any indicative level of leverage that you will be comfortable with 20%, 30%, 40%, I mean, is there any idea of that sort or it is totally left to, let's say, market condition are determined by whatever is on the table?

**Management:** No. Definitely we have the so-called rating from two agencies Moody's and S&P. Definitely, we may have that position, but we are while within the address much below that so-called limit, so we don't have to worry about that. Yeah?





**Abhishek Agarwal:**

Okay, sir. And my second question was on Mozambique itself. Now, obviously the various consortium partners will have a different comfort level with regards to what price of gas they would be okay with continuing with the project on because obviously everyone has different acquisition cost itself, so where do we sit on that, I mean, because obviously the other players being relatively early stage investors would probably be more comfortable and while service cost definitely have come down, the cost of building an LNG terminal definitely wouldn't have come down, so what would be your sense of where it would be okay for you in terms of, let's say, gas pricing or contracts for you to go ahead with the project?

**Management:**

Two things. I can't speak for others, whereas the comfort level of others only others know. And, secondly, as you would notice all LNG pricing is based on a formula. So unless somebody saying that the oil prices are going to continue at 40 to 50 days, there is a fair level of optimism as far as the time horizon of 2020 onwards is concerned because whatever lacked or access supply is being talked off, it's being talked off in the next two to three years. And impact, if you would see historically, if there is a CapEx reduction happening at this point in time all across the industry, this will definitely reflect by way of reduced liquid flow in the market in four to five years. In fact, I mean, so from that perspective the price expectation since it will be based on some formula, it will be directly or indirectly linked to the price. The front prices are not as very good guide for determining where the LNG good actually stands.

**Abhishek Agarwal:**

Sure, sir, of course. Finally, very specifically could you give us an idea of how much of your CapEx is done by own rigs and how much by third parties because obviously we are trying to assess for both fiscal?

**Management:**

Are you asking for domestic or international?

**Abhishek Agarwal:**

Domestically, sir.

**Management:**

Domestically, see, we got in the onshore we got 65 rigs which are in operations and in offshore we've got 8 own rigs. Apart from that, we are going to hire about 20 odd rigs which we keep on, but present tenders which we are just



going in for renewal and we have just put in about 5 rigs in place now and these are at, as I told you, it's about 30% lower than the earlier awarded cost. So going forward and all the rigs which are coming up for renewals we expect them to be on a lower end and this will help us in reducing our CapEx uplift.

**Abhishek Agarwal:** Got it, sir. Just to reconfirm 60 you have on your own working on onshore and offshore you have 8 of your own, 20 will be hired. Yeah. 20 already hired.

**Management:** It depends on the needs and requirements; based on that we put in numbers.

**Abhishek Agarwal:** Got it. Thank you so much, sir.

**Moderator:** Sir, you want me to go ahead and take the next question?

**Management:** I think we conclude the call. We will take a last question if someone is on the line.

**Moderator:** Sure, sir. So the last question we have from Miten Vohra from B&K Securities. Your line is unmuted. I'll repeat, Mr. Vohra?

**Management:** Ok. I'll thank all the participants who have participated in the con call and we hope and wish all the queries have been replied satisfactorily. Thank you.

**Moderator:** Thank you so much, sir. Thank you, participants, for joining the call. That does conclude our conference call for today. Thank you all for your participation. You all may disconnect your lines now. Thank you and have a good evening.

**Management:** Thank you.