“Q2 FY 14 Earnings Conference Call”

13th November 2013

SPEAKERS:
Mr. A. K. Srinivasan, GGM-Chief Corporate Finance
Mr. R. M. Sati, DGM Corporate Planning,
Mr. K S Pandey, GM-OVL
Mr. S.Ranganathan, CM(F&A), Investor Relations Cell

Moderator: Good day, ladies and gentlemen. I am Sourodip Sarkar, the moderator for this call. Thank you for standing by and welcome to the 2nd Quarter Financial Year 2014 Earnings Conference Call of ONGC Ltd. At this time, all the participants will be in listen-only mode, and post that, we will have a Q&A session. So now without further delay, I would like to hand over the proceedings to our speaker Mr. A. K. Srinivasan, GGM-Chief Corporate Finance for the Q2 FY14 Earnings Conference Call for Oil And Gas Corporation Limited. So thank you and over to you, sir.

A. K. Srinivasan: Good evening, ladies and gentlemen. I am A. K. Srinivasan. On behalf of ONGC, I welcome you all in this ONGC Earnings Call for Q2 FY14. Thank you all for joining us on the call. I am joined here by my colleague, Mr. R. M. Sati from Corporate Planning and Mr S. Ranganathan. And my colleagues from OVL already have interacted. They are also with me.

The financial results for the second quarter and half year ended September 2013 have been taken on record by ONGC's Board today, i.e. 13th November 2013. 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 ₹ 6,064 Crore during the second quarter of FY'14 as against ₹ 5,897 Crore during second quarter of FY'13, an increase of ₹ 167 Crore (i.e. 2.8%). However, the profit after tax for the first half of FY'14 is ₹ 10,080 Crore as against ₹ 11,974 Crore during the first half of FY'13, a decrease of ₹ 1,894 Crore (i.e. 15.8%).

The increase in PAT in Q2 FY14 is mainly due to higher crude, gas and VAP sales realization by ₹ 2,519 Crore, ₹ 211 Crore and ₹ 122 Crore respectively. Further the increase in PAT is attributable to decrease in Survey cost written off by ₹ 114 Crore.

However, this increase was partly off-set by increase in the Government of India's share of profit petroleum (₹ 321 Cr), increase in DD&I cost (₹ 778 Cr) mainly on account of depletion, increase in statutory levies (₹ 249 Cr), increase in dry well cost written off (₹ 106 Cr), increase in provisions and write off (₹ 155 Cr.), loss due to Exchange fluctuation (₹ 265 Cr), increase in tax burden (₹ 382 Cr), increase in operating expenditure (₹ 27 Cr). Further this increase in PAT was off-set by a decrease in other income (₹ 419 Cr).

The decrease of PAT in H1 FY14 is mainly due to increase in Operating Expenditure (₹ 1,727 Cr), exploration cost written off (₹ 359 Cr.), provisions and write off (₹ 181 Cr.), loss due to Exchange fluctuation (₹ 169 Cr), DD&I (₹ 1,113 Cr.) and statutory levies (₹ 549 Cr). Further the decrease in PAT is attributable to increase in the Government of India's share of profit petroleum (₹ 298 Cr), lower VAP sales realization by ₹ 73 Crore and decrease in other income (₹ 260 Cr).

However, this decrease of PAT in H1 FY14 was partly off-set by higher crude and Gas sales realization by ₹ 1,786 Crore & ₹ 250 Crore respectively. Further, this decrease has been off-set by reduction in interest payment (₹ 32 Cr) and tax burden (₹ 714 Cr).

Our share of subsidies towards under recoveries of oil marketing companies during Q2 FY14 stood at ₹ 13,796 Crore as against ₹ 12,330 Crore in Q2 FY13. The same for the first half of the current fiscal stood at ₹ 26,418 Crore as against ₹ 24,676 Crore for the first half of FY13.

The gross sales revenue for Q2 FY14 is higher by ₹ 2,531 Crore, an increase of 12.7% at ₹ 22,384

Crore as against ₹ 19,853 Crore in the corresponding quarter of previous year mainly due to favorable price variance of Crude, Gas & VAP amounting to ₹ 2,723 Crore, ₹ 365 Crore and ₹ 358 Crore respectively, off-set by a negative quantity variance of crude (₹ 204 Cr), Gas (₹ 154 Cr) and Value Added Product (₹ 237 Cr) and finally due to increase in the profit petroleum surrendered, by ₹ 321 Crore.

The gross sales revenue for H1 FY14 is higher by ₹ 1,665 Crore, an increase of 4.2% at ₹ 41,666 Crore as against ₹ 40,001 Crore in the corresponding first half of previous year again mainly due to favorable price variance of crude, gas and VAP by ₹ 1,937 Crore, ₹ 556 Crore and ₹ 140 Crore respectively, off-set by a negative quantity variance of crude (₹ 151 Cr), Gas (₹ 305 Cr) and Value Added Product (₹ 212 Cr) and finally due to increase in the profit petroleum surrendered, by ₹ 298 Crore.

The gross billing for crude during the second quarter of the current fiscal was at USD 109.01/bbl as against USD 109.81/bbl in the same period of last year, that is a marginal decrease of 0.7%. 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 44.84/bbl as against USD 46.76/bbl in the same period of last year which amounted to a decrease of 4.1%. Similarly, the gross billing for the first half of this year stood at USD 105.89/bbl as compared to USD 109.47/bbl for the first half of last fiscal. The net realization after discount for the first half of the current year was USD 42.56/bbl vis-à-vis USD 46.32/bbl in the first half of last year. The decrease in net realization in USD was partly off-set by weakening of INR vis-à-vis USD by 12.5% during the second quarter of FY14. The exchange rate of rupee versus dollar stood at ₹ 62.13 vis-à-vis ₹ 55.24 in the second quarter of FY13. Thus the post discount realization for crude in rupee terms stood at ₹ 2,786/bbl in Q2 FY14 vis-à-vis ₹ 2,583/bbl in Q2 FY13 which amounted to an increase of 7.9% in INR despite decrease in the post discount realization by 4.1% in USD terms. However, there is no significant variation in the net realization in rupee term i.e. from ₹ 2,535/bbl in H1 FY13 to ₹ 2,515/bbl in H1 FY14 being a marginal reduction of 0.8%.

Interest and dividend income has decreased by ₹ 132 Crore in Q2 FY14 from ₹ 1,140 Crore in Q2 FY13 to ₹ 1,008 Crore in Q2 FY14. However, during H1 FY14 interest and dividend income has marginally increased by ₹ 2 Crore i.e. from ₹ 1,962 Crore in H1 FY13 to ₹ 1,964 Crore in H1 FY14. The decrease in interest income in Q2 FY14 is attributable to lower average rate of interest on investable funds from 10.1% in Q2 FY13 to 9.24% in Q2 FY14. The weighted average investments have also decreased during Q2 FY14 as compared to Q2 FY13. Similarly the average rate of interest has also decreased from 10.1% in H1 FY13 to 9.15% in H1 FY14 and also reduction in the weighted average investments in H1 FY14 from ₹ 18,676 Crore in H1 FY13 to ₹ 15,525 Crore in H1 FY14.

Non-Operating Income in Q2 FY'14 has decreased by ₹ 287 Crore as compared to Q2 FY'13 i.e. from ₹ 761 Crore in Q2 FY13 to ₹ 474 Crore in Q2 FY14. Similarly during H1 FY14 non-operating income has decreased by ₹ 262 Crore i.e. from ₹ 977 Crore in H1 FY13 to ₹ 715 Crore in H1 FY14. The decrease both in Q2 FY14 and H1 FY14 are mainly attributable to Excess Provision Written Back for ₹ 357 Crore on finalization of COSA during Q1 FY13 and ₹ 45 Crore on account acquisition of PI of 25% in Block CB-ONN-2004/3 in July 2012.

The operating expenditure of Q2 FY14 has increased marginally by ₹ 27 Crore to ₹ 3,925 Crore from ₹ 3,898 Crore and during H1 FY14 the operating expenditure has increased by ₹ 1,727 Crore to ₹ 8,552 Crore from ₹ 6,825 Crore mainly on account of the increase in Manpower, Work-over Expenditure, Consumption of Material, Pollution Control, Repair & Maintenance, Contractual Payments, Administrative Expenses, Transportation of oil and gas, Un-allocable Rig Cost and Research & Development Expenditure. This increase in first half of FY14 is partly off-set by decrease in Water Injection, Purchase of Condensate, Other Production Expenditure etc.,

DD&I cost for Q2 FY'14 stood at ₹ 2,426 Crore as against ₹ 1,648 Crore in Q2 FY'13 i.e an increase of ₹ 778 Crore (47.2%). The increase is mainly on account of depletion by ₹ 665 Crore in Mumbai amounting to ₹ 348 Crore due to increase in value of Producing Property on account of capitalization of facilities/wells and additional abandonment liability. Further the increase is in the non-operated RJ-ONN-90/1 (Rajasthan Block) amounting to ₹ 180 Crore due to capitalization of wells and facilities at Aishwarya Field. Similarly there is an increase of DD&I cost in H1 FY14 i.e. from ₹ 3,646 Crore to ₹ 4,759 Crore again mainly on account of additional depletion by ₹ 842 Crore in Mumbai, non-operated RJ-ONN-90/1 (Rajasthan Block) and Panna Mukta & Tapti due to capitalization of facilities, additional well expenditure and abandonment liability in respect of producing property.

Further, the increase in DD&I cost both in Q2 FY14 and H1 FY14 is attributable to increase in depreciation by ₹ 96 Crore in Q2 FY14 and ₹ 216 Crore in H1 FY14 mainly due to capitalization of MNP Process Platform in Mumbai during Q3 FY13.

The exploration cost written off has marginally decreased in Q2 FY'14 to ₹ 2,071 Crore as compared to ₹ 2,079 Crore in Q2 FY'13, a decrease of ₹ 8 Crore only. The decrease is on account of lower survey expenses by ₹ 114 Crore in Q2 FY14 from ₹ 381 Crore in Q2 FY 13 to ₹ 267 Crore in Q2 FY14 mainly because of not carrying out any 2D survey activity in Q2 FY14 and this decrease is partially off-set by higher unsuccessful well cost of ₹ 106 Crore i.e. from ₹ 1,698 Crore in Q2 FY13 to ₹ 1,804 Crore in Q2 FY14. Similarly the exploration cost written off has increased during H1 FY14 by ₹ 359 Crore i.e. from ₹ 3,280 Crore in H1 FY13 to ₹ 3,639 Crore in H1 FY14. The increase is on account of higher unsuccessful well cost by ₹ 166 Crore in H1 FY14 as also increased survey expenditure by ₹ 193 Crore mainly due to higher 3D survey activity in H1 FY14.

Provisions and write off has increased by ₹ 155 Crore i.e. from ₹ 395 Crore in Q2 FY13 to ₹ 550 Crore in Q2 FY14. The provision include an amount of ₹ 483 Crore (₹ 393 Crore in Q2 FY13) towards VAT/ Octroi/ CST deduction by refineries on discount on crude oil from ONGC. Similarly provisions and write off has increased by ₹ 181 Crore in H1 FY14 i.e. from ₹ 833 Crore in H1 FY13 to ₹ 1,014 Crore in H1 FY14. This provision includes an amount of ₹ 919 Crore (₹ 737 Crore in H1 FY13) towards VAT/Octroi/CST deduction by refineries on discount on crude oil from ONGC.

During Q2 FY14, the statutory levies stood at ₹ 5,899 Crore as compared to ₹ 5,650 Crore in Q2 FY13, that is an increase of ₹ 249 Crore (4.4%). Similarly during H1 FY14, the statutory levies also increased by ₹ 549 Crore (5%) from ₹ 10,982 Crore in H1 FY13 to ₹ 11,531 Crore in H1 FY14. One of the main reason for increase in statutory levies is on account of onshore crude oil royalty by ₹ 223 Crore which is mainly attributable to increase in average selling price of crude oil in Q2 FY14 coupled with increase in royalty on onshore gas by ₹ 50 Crore on account of devaluation of rupee against US Dollars.

Well, friends, with this I will finish my briefing on the second quarter results of fiscal 2013-14 and we will be happy to take questions but again to remind you, as I said in the beginning, please try to confine your questions on the quarterly results only. Thank you very much,

Moderator: Thank you, Mr. Srinivasan. With this we are going to start the "Q&A" interactive session. I would request the attendees and the participants', if you wish to ask any question you may press "0" and "1" on your telephone keypads. Participants', if you wish to ask any question on Q2 FY14 Earnings' Conference Call for ONGC Limited, I would request you to press "0" and "1" on your telephone keypad and wait for your name to be announced. To ask question, you need to press "0" and "1" on your telephone keypad, please. And we have the first question from Mr. Probal Sen from IDFC Securities. The line has been unmuted. You may go ahead and ask your question.

Probal Sen: Yeah, thank you for the opportunity. I just wanted to know some guidance in terms of the exploratory write offs. Can we get any sense of what these numbers would look like for the rest of the year? Secondly, in terms of Capex plans, if we can get an update on this year and the next years' plans. And thirdly the production guidance, if I may get.

A.K. Srinivasan: Yeah, our Capex plan is ₹ 35,059 Crore for FY14. And the next year Capex numbers are yet to be firmed up. And we will be able to come out shortly. So as of now, the Capex and the exploration budget numbers which have been there, they will remain more or less in the same order.

Probal Sen: Okay, and on production, sir, are we still holding onto our MoU, sort of, target as of now?

A.K. Srinivasan: Half yearly, we have 11.15 MMT from our nominated blocks and 12.98 MMT including Joint Ventures

Probal Sen: Yes, can you give the split for that, sir, please?

A.K. Srinivasan: Yeah, for the half year, what we had is 11.15 MMT from the nominated blocks and JV 1.83 MMT totalling to 12.98 MMT for the first half. And for the year FY 2014, the guidance is 27.24 MMT including JVs.

Probal Sen: May I get a break-up or how much is the standalone and JV targets?

A.K. Srinivasan: 24.08 MMT is standalone and 3.16 MMT for JV.

Probal Sen: Okay, fair enough. Sir, that is all from my side. Thank you very much for your time.

Moderator: We have the next question from Mr. Harshad from Motilal Oswal. The line has been unmuted. You may go ahead and ask your question, please.

Harshad Borawake: Thank you. Sir, can you give us clarity on production increase which is now expected in the second half of this year. Can you just update us on the same?

Management: Yeah, if you see the current trend till the half of H1, you will see that we are at the same level what we were in the H1 of the last year. But lot many developments have already been in place, only the connections of few are left like, B-193, we have already drilled 6-7 wells. Then Cluster-7 is another scheme of the marginal field development. So lot many activities are in pipeline within this November and December. So definitely, we are going to pick up the productions from, say, end of this month, say, November. And mainly contributor will be the B-193 and the Cluster-7 as well.

Harshad Borawake: Okay, and also from this additional, this D1 field in Mumbai High?

A.K. Srinivasan: Yeah, we are getting that. But still we are hovering around 20,000 barrels from that D1 though we have drilled some – one, two extra well. But there is some problem in the lifting mechanism of these particular wells. We have already put some ESPs for faster withdrawal of the liquid from these wells. So definitely, lot many efforts are there to increase the production from D1 itself.

Harshad Borawake: Okay. So let's say, 1Q FY15, what could be the quarterly run rate of oil production there?

A.K. Srinivasan: FY15 ?

Harshad Borawake: Yeah, basically, first quarter of the next year.

A.K. Srinivasan: For D1 or the overall?

Harshad Borawake: No, overall, company.

A.K. Srinivasan: Overall, the tentative plan is to have about 28.7 MMT

A.K. Srinivasan: 28.73 includes JV also.

A.K. Srinivasan: That is for the year as a whole because all the marginal fields will come into production right then. So we expect to ramp up by 2 MMT for the next year.

Harshad Borawake: 2 MMT next year? Okay. And, sir, have you received any notification from the government about this gas price hike from April 2014?

A.K. Srinivasan: As of now, nothing.

Harshad Borawake : Okay, thank you. That is all from my side.

Moderator: Thank you so much. Before we move onto the next question, I would like to repeat, attendees, if you wish to ask any question, you may press "0" and "1" on your telephone keypad, please.

We have the next question from Mr. Vidyadhar from DSP Merrill Lynch. The line has been unmuted. You may go ahead and ask your question.

Vidyadhar: Yeah, thank you, good evening. Any update on the KG-DWN-98/2 block? There has been press reports of an oil discovery in the appraisal wells which makes 100 million tonnes in clay soil. And so how is the appraisal progressing and when do you expect to account the gas and oil reserves in this block?

A.K. Srinivasan: Yeah, exactly, you have rightly said that. When we first submitted our DOC for further appraisal, the DGH have advised ONGC to go for further appraisal. Accordingly we will be delineating the area by drilling some seven to eight wells more. And the target date for that is fixed for the December 2013. So in due course, we will be completing that and out of eight wells we have drilled seven and the eighth well is in progress/under drilling. And the good news is that, that we were expecting delineating only the gas prospects at the earlier stage, but luckily we got very good sand. The thick oil columns in some of the wells in the Northern Discovery Area, has given further impetus to develop in both the way, not only in the perspective of gas, but also oil and gas together. So when we complete the appraisal drilling by, say, December 2013, then we will analyse and then submit our DOC to the DGH.

Vidyadhar: Is oil production likely to be faster than gas or would it take roughly a similar timeframe?

A.K. Srinivasan: Once the DOC is submitted, it will be worked out both together for gas and oil. And definitely, the evacuation of oil will be quicker by putting FPSO that could be one of the options which we are looking at.

Vidyadhar: Because where I am coming from is that in the case of the KG-D6 blocks, I think, the gas took a much longer time to develop, while the oil discovery, I think, which was made in 2006 was developed within, I think, some two-three years. It was developed in a shorter time. So do you also see the possibility of oil development being faster than gas?

A.K. Srinivasan: It will be, basically, the entire plan we would like to put it by FY18. So, definitely, by then, the parallel activities will be working on that.

Vidyadhar: So when do you expect to account the reserves in this block?

Management: As my colleague has said, the appraisal activity will get over by December 2013. And we will be putting up our DOC to the government for validating our reserve numbers. Already our DOC carries some reserve estimate number of 4.85 tcf. But oil also will be added to that and we will be putting up the numbers.

Vidyadhar: So is it likely in FY14 or it is more likely only in FY15 in the accounting of reserve?

A.K. Srinivasan: It may be ’14, yeah. Basically, once we submit our revised DOC to the government, then process of acceptance by DGH will commence.

Vidyadhar: So are you confident of accounting reserves in FY14 or it could be either FY14 or FY15?

A.K. Srinivasan: Basically, by FY 14 we are just completing our appraisal activity and putting up the revised DOC. So we are confident, it will be coming by 2014 end or early first quarter of 2015.

Vidyadhar: Okay, so the reserves are more likely to be accounted in next financial year?

A.K. Srinivasan: Yeah.

Vidyadhar: Okay, thanks, sir.

Moderator: Thank you so much. I would like to repeat, participants’ if you wish to ask any question, you may press “0” and “1” on your telephone keypad, please. Sir, at this time we have no more questions from participants. So I would like to hand it over back to the management for any final or closing comments.

A.K. Srinivasan: We thank you for participating in this particular con call for the Q2FY14 and thank you very much.

Moderator: Thank you so much, sir. Thank you ladies and gentlemen for joining us for the quarterly results' conference call. With this we conclude it for today, wish you all a great evening ahead. You may all disconnect your line. Thank you so much.