# “ONGC Limited Q1 FY’15 Results Conference Call”

## 13th August 2014

**SPEAKERS:**
**Mr. A. K. Srinivasan, ED-Chief Corporate Finance**
**Mr. Dinesh Satija, ED-CP**
**Mr. K. S. Pandey, GM-CP, OVL**
**Mr. S. Ranganathan, CM(F&A)-IRC**

**Moderator:** Good day, ladies and gentlemen. I am Sourodip Sarkar, the moderator of this call. Thank you for standing by and welcome to the Q1 FY'15 Earnings Conference Call for 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 further delay, I would like to hand over the proceedings to our first person in the management, Mr. A. K. Srinivasan. Thank you and over to you, sir.

**A. K. Srinivasan:** Good evening, Ladies and Gentlemen, I am A. K. Srinivasan, Executive Director-Chief Corporate Finance and on behalf of ONGC I welcome you all in this ONGC earnings call for Q1 FY'15. Thank you all for joining us on the call. I am joined here by my colleagues Mr. D. Satija, ED-CCP, Mr. S Ranganathan of Investor Relation Cell, and I also have my colleague from OVL Mr. K. S. Pandey, GM-CPD.

The financial results of Q1 FY'15 have been taken on record by the ONGC Board of Directors today i.e., August 13, 2014, just a couple of hours before. The results have been released through a press note and sent to the stock exchanges. This has also been sent to all the analysts who are there in our mailing list. Let me give a synopsis of the results.

The company has earned PAT of ₹ 4,782 Crore during this quarter as against ₹ 4,016 Crore during the corresponding quarter of the fiscal 2014, an increase of ₹ 766 Crore, which amounts to an increase of 19.1%.

Increase in PAT was mainly due to higher Crude sales realization (₹ 2,035 Crore), Gas (₹ 252 Crore) and VAPs (₹ 336 Crore), increase in other operating income by ₹ 13 Crore, decrease in operating expenditure (₹ 1,102 Crore), decrease in survey cost written off by ₹ 226 Crore, decrease in provisions & write off by ₹ 450 Crore and favourable exchange variation (gain) by ₹ 202 Crore.

Increase in PAT was partly off-set by decrease in interest and dividend income (₹ 220 Crore), decrease in non-operating income (₹ 80 Crore), increase in dry well cost written off (₹ 2,486 Crore), increase in Govt. share of Profit petroleum (₹ 87 Crore), increase in statutory levies (₹ 260 Crore), increase in DD&I cost (₹ 230 Crore) and finally by an increase in income tax provision (₹ 647 Crore).

Our share of subsidies towards under recoveries of oil marketing companies during Q1 FY'15 stood at ₹ 13,200 Crore as against ₹ 12,622 Crore in Q1 FY'14. This has adversely impacted our PAT by ₹ 7,396 Crore during Q1 FY'15. But for the under recoveries adjustment, the PAT for Q1 FY'15 would have been ₹ 12,178 Crore as against ₹ 11,147 Crore in the corresponding quarter of previous year.

The sales revenue for Q1 FY'15 was higher by ₹ 2,530 Crore (13.1%) at ₹ 21,813 Crore as against ₹ 19,283 Crore in the corresponding quarter of previous year mainly due to favourable price variance of Crude (₹ 2,098 Crore), Gas (₹ 447 Crore) and VAP (₹ 529 Crore) being off-set by negative quantity variance of Crude, Gas & VAP by ₹ 64 Crore, ₹ 195 Crore and ₹ 193 Crore respectively and further off-set by an increased amount of profit petroleum shared with Government of India as per PSC in respect of JVs for Q1 FY'15 by ₹ 87 Crore.

Gross billing for crude during Q1 FY'15 was at US$ 109.48/bbl as against US$ 103.06/bbl in the same period last year, an increase of 6.2%. The post discount realization for crude oil in this quarter was US$ 47.15/bbl as against $ 40.33/bbl in the same period of last year, an increase of 16.9%. The average exchange rate of INR v/s USD stood at ₹ 59.77 vis-à-vis ₹ 55.95 in the first quarter of 2013-14. The increase in net realization in terms of USD has increased the post discount realization in terms of INR at 24.9% i.e. from ₹ 2,256/bbl in Q1 FY'14 to ₹ 2,818/bbl in Q1 FY'15 in addition to increase due to weakening of rupee by ₹ 3.82 per USD (6.8%) during the current quarter.

Interest and Dividend income has decreased by ₹ 220 Crore from ₹ 955 Crore in Q1 FY'14 to ₹ 735 Crore in Q1FY'15. The decrease is mainly due receipt of interest on IT refund (₹ 240 Crore) during Q1 FY'14 on completion of assessment for AY 1994-95 & 95-96 based on favourable Supreme Court judgments and decrease in interest on Bank/PSU deposits by ₹ 36 Crore due decrease in weighted average investment during Q1 FY'15. This decrease was off-set by an increase in interest on SRF deposit by ₹ 34 Crore & increase in interest on loans to subsidiaries by ₹ 30 Crore. Other Non- Operating Income in Q1 FY'15 has decreased by ₹ 80 Crore as compared to Q1 FY'14 i.e. from ₹ 241 Crore to ₹ 161 Crore mainly due to write back of excess liability of Royalty on closing stock during Q1 FY'14.

The operating expenses in Q1 FY'15 has decreased by ₹ 1,102 Crore to ₹ 3,526 Crore from ₹ 4,628 Crore. The decrease is mainly in manpower expenditure (₹ 183 Crore), Work-over expenditure (₹ 16 Crore), Pollution control expenses (₹ 57 Crore), Transport Expenses (₹ 19 Crore), repair and maintenance expenses (₹ 51 Crore), R&D expenditure (₹ 59 Crore), Administrative expenses (₹ 750 Crore) etc. The major decrease in Manpower and Administrative Expenses is attributable to allocated portion of provision amounting to ₹ 1,611 Crore made during Q1 FY'14 towards one time grant to Post Retirement Benefit Scheme for converting the Defined Benefit Scheme to Defined Contribution Scheme in terms of the guidelines issued by the DPE. This provision has significantly increased the cost of various activities during Q1 FY'14 where manpower cost is allocated like Drilling, Production, Work-over, Water injection, TOG, R&D, Pollution Control and administrative expenses/overheads which is not there in Q1 FY'15.

DD&I cost for Q1 FY'15 stood at ₹ 2,563 Crore as against ₹ 2,333 Crore in Q1 FY'14. i.e an increase of ₹ 230 Crore (9.9%). The increase is mainly on account of depletion expenses by ₹ 353 Crore due to additional depletion in new field B- 193 and due to additional capitalization of facilities in Mumbai High & Heera Field. The increase is off-set by decrease in depreciation by ₹ 85 Crore due to implementation of Schedule-II of the new Companies Act 2013 wherein depreciation rates have been calculated based on the useful life of various Oil & Gas assets and decrease in impairment loss by ₹ 43 Crore due to implementation of Guidance Note effective Q1 FY'14.

The Exploration Cost written off has increased in Q1 FY'15 to ₹ 3,828 Crore as compared to ₹ 1,568 Crore in Q1 FY'14, an increase of ₹ 2,260 Crore which is mainly on account of increase in expenditure on dry wells by ₹ 2,486 Crore from ₹ 993 Crore to ₹ 3,479 Crore in Q1 FY'15 which includes major wells w/off in NELP SR Offshore (₹ 1,393 Crore) and Rajahmundry Asset (₹ 751 Crore) However, this has been off-set by a decrease in survey expenditure mainly due to decreased 3D survey activity (₹ 226 Crore) .

During Q1 FY'15, the statutory levies stood at ₹ 5,892 Crore as against ₹ 5,632 Crore in Q1 FY'14, an increase of ₹ 260 Crore. The increase is mainly attributable to royalty on crude oil by ₹ 324 Crore due to increase in royalty expenditure in RJ-ON-90/1, Mumbai & Rajahmundry Onshore on account of higher price realization in Q1 FY'15 than in Q1 FY'14. This increase was partially off-set by decrease in Education Cess by ₹ 74 Crore due to discontinuance of Education Cess payment on OIDB Cess effective January, 2014.

Provisions and write off has decreased by ₹ 450 Crore from ₹ 464 Crore in Q1 FY'14 to ₹ 14 Crore in Q1 FY'15. This is mainly on account of provision of ₹ 436 Crore in Q1 FY'14 towards Octroi/VAT/CST deduction by refineries on discount on crude oil from ONGC.

In terms of physical performance, there is a marginal reduction of 0.65% in Oil production at 6.449 MMT in the first quarter of this fiscal as against 6.491MMT in the same quarter last year. Gas production was also lower by 2.3% at 6.036 BCM in this quarter v/s 6.181 BCM in corresponding quarter of the previous year.

With this I finish my briefing of the first quarter results for Financial Year 2014-15. We will be very happy to take questions from you. I and my team members would try to answer your questions.

Thank you.

**Avadhoot Sabnis:** Yes. I just wanted Mr. Srinivasan to just repeat what he said. When he talked about the drywell write-off, it's obviously a usually big number and you mentioned specific blocks which contributed to the drywell write-off, so could you, sir, please, repeat those blocks?

**A. K. Srinivasan:** Yeah. Sure. Just give me a minute. The blocks which have been charged off were from KG 98/2 block that is now southern region and there were two blocks which were having major amounts ₹ 1220 and ₹ 585 Crore. Apart from that, we had two other wells in the nomination field in Rajahmundry area that is ₹ 574 and ₹ 347 Crore. These were the major ones, which have been impacted our drywell charge-off.

**Avadhoot Sabnis:** All the write-off these major ones are related to deepwater wells?

**A. K. Srinivasan:** Yes, these are all deepwater wells.

**Avadhoot Sabnis:** Is it possible to get a number in terms of, first of all, how many exploration work were drilled in this particular quarter related to first quarter last year how much were…?

**A. K. Srinivasan:** No. No. These were not the wells which were drilled in this particular quarter. These were the ongoing wells which were being carried in our exploration expenditure. And the testing of those wells have been accomplished during this quarter and have just been notified and declared that these wells have not proven for us and we are permanently abandoning them. So this is not the well which has been taken up for drilling this quarter, it is our ongoing well in our exploration expenditure.

**Avadhoot Sabnis:** Okay. My second question, sir, is relating to how you are treating the interest expense on the loans that you've taken for the Mozambique asset?

**A. K. Srinivasan:** Yeah. Can you repeat the question, sir, ?

**Avadhoot Sabnis:** Yeah. How would you be treating the interest cost on the loans that you've taken for the Mozambique asset?

**A. K. Srinivasan:** It will be capitalized. It will be considered for under capitalization as CWIP.

**Avadhoot Sabnis:** Okay. That's it from my side. Thank you.

**Moderator:** Thank you very much. We have the next question from Mr. Amit Rastogi from Antique. The line is unmuted. You may go ahead and ask your question.

**Amit Rastogi:** Yeah. Good evening, everyone. Sir, regarding the Mozambique loan when we talk to Oil India, they said that since we have acquired the stake from Videocon, we cannot capitalize it and they are writing it off in the P&L. So this quarter if you see they have taken ₹ 85 crore in the P&L as an interest expense, so how we can have different accounting policies?

**A. K. Srinivasan:** See, Oil India would have followed a different policy. And as far as, the acquisition of the Mozambique block is concerned - they are yet to be put on to the development and they are still – exploration, I mean, the development phase is on now. And once we convert, this will be capitalized and this is the policy which ONGC has taken a view on that and accordingly we follow. What Oil India has done the way it is right or wrong, we cannot give comments on that.

**Amit Rastogi:** Okay. And, sir, coming to OVL, can you give us the first quarter performance for OVL as well and what is the gross debt on OVL right now?

**A. K. Srinivasan:** Because the board meeting is scheduled for 28th and we cannot release the number, but definitely as on the last quarter the loans which were holding they still continue as on the end of 1st quarter. We have not raised any fresh loans in the first quarter.

**Amit Rastogi:** Okay. And Mozambique loan has already been tied up?

**A. K. Srinivasan:** Because we had a bridge loan which we were carrying and we have converted the bridge loan into a term loan now through bond issue. So we don't have any new loans standing on to the books of OVL.

**Amit Rastogi:** Okay. And, sir, what about the standalone debt as of now and standalone cash balance on ONGC books?

**A. K. Srinivasan:** Our cash balance is around ₹ 14000 crore for the current year, I mean, first quarter – and no standalone debt.

**Amit Rastogi:** Okay. And, sir, have you firmed up over the production targets for the next financial year?

**A. K. Srinivasan:** For OVL?

**Amit Rastogi:** For ONGC for the next financial year?

**A. K. Srinivasan:** For 2014-15 ?

**Amit Rastogi:** Sir, FY'15-16? Yeah.

**A. K. Srinivasan:** 2015-16 is yet to be firmed up and we will be going to the board for approval in the month of October. By then, it will be officially notified.

**Amit Rastogi:** Okay. What about this year? Had they revisited?

**A. K. Srinivasan:** No. We have already given a target of – My MoU targets are 23.51 MMT for ONGC and 3.63 MMT for JVs and definitely we are going to be achieving that.

**Amit Rastogi:** Okay. Right. Right. Right, sir. Thank you.

**Amit Rastogi:** Okay, sir. Thanks a lot, sir.

**Moderator:** Thank you very much. We have the next question from Mr. Prabal Sen from IDFC Securities. Your line is unmuted.

**Prabal Sen:** Good evening, sir. Just a thing on the production target numbers, can we get a number broken down into standalone oil and gas as well as for JV for the…?

**A. K. Srinivasan:** For the second quarter or you want for this balance period?

**Prabal Sen:** For the full year, sir. For the full year.

**A. K. Srinivasan:** Yeah. My colleague will share with you.

**Management:** For ONGC standalone the MoU target for 2014-15 is 21.67 MMT for ONGC. This is excluding the condensate. If we include the condensate, the target is 23.51 MMT. And the targets for JV is 3.63 MMT and the total ONGC plus JV is 27.14 MMT.

**Prabal Sen:** That's for oil, sir, right?

**Management:** Yeah. That is for oil.

**Prabal Sen:** And for gas?

**Management:** Okay. For gas, ONGC total is 24 BCM and JV is 1.34 BCM and ONGC plus JV is 25.34 BCM.

**Prabal Sen:** Right. Okay. Fair. And, sir, the other question on the drywell write-off any sense again will this kind of drilling intensity continue for the balance year as well? Do we have big ticket deep water well of this magnitude going through?

**A. K. Srinivasan:** No. It is not that way. What I am saying is my exploration activity is an ongoing activity. See, my exploration if you look at it, say, already if you look in my last year closing numbers, exploration expenditure which we are carrying in our book was more than ₹ 10,000 crore. And the testing of these wells continuously happens in quarter-on-quarter basis. And if it found that they are not having any potential and we will take it as per the policy of declaring them. So it's not that we take up a well in a particular quarter and goes for a dry. It is just an ongoing exercise as a business goes on. We take up the exploration activity on a continual basis. So it is nothing abnormal. So I had around ₹ 10,000

Crore as expenditure on exploratory wells in progress in my books of account. So, again, those wells which we have tested out and we finally said this will be of no interest to us to carry them in future. So we have taken a call in this particular quarter on certain wells to charge them off.

**Prabal Sen:** Right. Sir, what I wanted to hear, I mean, what I was trying to get a sense on other is how many deepwater wells do we have planned for the rest of the year? Can you get a sense of that?

**A. K. Srinivasan:** In the current year, we were – We will just tell you. One second.

**Prabal Sen:** Sure, sir.

**A. K. Srinivasan:** We have planned to drill 8 wells in 2014-15.

**Prabal Sen:** I am sorry, sir?

**A. K. Srinivasan:** 8.

**Prabal Sen:** That is excluding the wells that have been drilled already or for the balance of the year for full year?

**A. K. Srinivasan:** No. No. No. new one. Two of them have been drilled in the first quarter of 2014-15 and balance of 6 wells will be drilled during the remaining three quarters.

**Prabal Sen:** Sure, sir.

**A. K. Srinivasan:** This is part of that. In the ongoing process of the current year, we have planned to drill 8 wells.

**Prabal Sen:** Okay.

**A. K. Srinivasan:** And out of which, we have completed activities on 2 wells during the first quarter.

**Prabal Sen:** Great. All right, sir. Thanks. That's all from my side. I will come back if I have anything.

**A. K. Srinivasan:** Yeah. Yeah. Sure. Thank you.

**Moderator:** Thank you very much. We have the next question from Mr. Harshad from Motiwal Oswal. Your line is unmuted. You may go ahead and ask your question.

**Harshad:** First on the status update on the various projects, you know, which we had lined up for the production ramp up can you give some details on this, sir?

**A. K. Srinivasan:** Production ramp up for the current year?

**Harshad:** Current year, sir.

**A. K. Srinivasan:** Yeah. The projects which we had invested in the previous year that is B-193, B-22, Cluster-7, D-1, C Series all these are producing now. My B-193 is producing about 12,000 barrels and my Cluster-7 is producing about 14,000 barrels and D-1 is producing about 26,000 barrels a day

**Harshad:** Okay.

**A. K. Srinivasan:** So these run rates if you move forward by the year-end, we will be definitely catching up of our target 50% for our wells.

**Harshad:** Okay. Fine. And my second question was on the KG 98/2. There were some news flows about DGH basically, you know, accepting some and rejecting some of the discoveries, so just wanted what was said on that front.

**A. K. Srinivasan:** See, as well as the – Whatever media has been projecting, but we have submitted our DOC and we have got any formal communication that they have rejected it. But I don't think that this is a concern for us because nothing has been heard from DGH officially too. We still continue to go ahead with what we have projected in our geography.

**Harshad:** Okay. And, sir, lastly what is the total number of exploration wells planned in FY'15?

**A. K. Srinivasan:** Just I shared the numbers it is 8 numbers we have planned for the current year.

**Harshad:** 8 was deepwater, right?

**A. K. Srinivasan:** Okay. You want the total number? Okay. That is about…

**A. K. Srinivasan:** It is actually 160, which we have planned, but definitely while working on the situations and we will try to come back again during our revised estimates and again we will take it for the future. This is the tentative number which we had planned a year-and-a-half prior and we went with the 160 well plan.

**Harshad:** Okay. Thank you.

**Moderator:** Thank you very much. We have the next question from Mr. Rohit Ahuja from ICICI. Before I open your line, I would request all the participants, should you wish to ask any question, you may please press “0” and “1” on your telephone keypad and wait for your name to be announced. It’s “0” and “1” on your telephone keypad to ask questions. Mr. Ahuja, your line is unmuted. You may go ahead and ask your question.

**Rohit Ahuja:** Hi. Good evening, sir. Thanks for this opportunity. Sir, on this drywell write-off which you mentioned for 98/2 block, sir, does this change any of your estimates on reserves or any kind of change in your development plan?

**A. K. Srinivasan:** No. No. Actually what happened we have other blocks like I said, two of the ultra-deep that is in the southern development area. There is a continuous activity or exploration being carried out and these are pertaining to those wells which we had earlier taken up and they were becoming a part of Exploratory wells in progress – We were carrying them as an exploratory expenditure yet to be tested and these have been tested during this quarter and found to be of no use and accordingly charged off in this quarter thereby increase in dry well expenditure during Q1 FY’15.

**Rohit Ahuja:** So in terms of discoveries that we announced in this block, where are we in terms of status, I believe you have already submitted the DOC?

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|---|---|
| **A. K. Srinivasan:** | It is already with the government, waiting approval from them. And parallelly as far as the company is concerned, we are working on with the consultant on the FDP and we will be definitely coming out for monetizing by 2018-19. |
| **Rohit Ahuja:** | So in terms of your reserves, have you taken any of your reserves into your P2 numbers that you declared? |
| **A. K. Srinivasan:** | Reserves into my P2 numbers? |
| **Rohit Ahuja:** | Reserves from 98/2 block? |
| **A. K. Srinivasan:** | No. |
| **Rohit Ahuja:** | Okay. Thanks, sir. |
| **Moderator:** | Thank you very much. We have the next question from Mr. Aishwarya from Reliance Mutual Fund. Your line is unmuted. You may go ahead and ask your question. |
| **Aishwarya:** | Good evening, sir. |
| **A. K. Srinivasan:** | Good evening. Good evening. |
| **Aishwarya:** | Sir, When is this D6 where we… |
| **A. K. Srinivasan:** | It's not audible. Can you just be louder, please? |
| **Aishwarya:** | Yeah. Sure, sir. Just one second. Now is it clear? |
| **A. K. Srinivasan:** | Yeah. It's okay. |
| **Aishwarya:** | Sir, about D6 project, this gas price of $ 6.5 or maybe $ 7 whether that is economically feasible to develop that project? |
| **A. K. Srinivasan:** | Which one, D6? We don't have D6. |
| **Aishwarya:** | Sorry, 98/2? |
| **A. K. Srinivasan:** | 98/2, yes, it should be becoming a viable project even if I get a price of $ 7 because by the time the real gas price |

comes to play it will be about 3 to 4 years down the line and this is a dynamic gas pricing – It may not be $ 6, $ 7 as on date today; it may be much more beyond that 3 -4 years from now being a dynamic price. So it's too premature to say.

**Aishwarya:** Sure. Sure. Second, sir, coming to the exploration bucket of ₹ 10,000 Crore out of which we have written off some major amount, so how you see, I mean, how you foresee the future of those remaining ₹ 5000 odd crores or maybe ₹ 4000 odd Crore?

**A. K. Srinivasan:** No. Actually what I was mentioning the exploration business is not one-time so as to carry out and just forget about it. We keep on exploring and it is a continuous process as long as these blocks are available under nomination as well as others. And there may be successes, there may be failure, but sometimes testing these wells take some time and due to which the charging of these expenditures are subject to certain timing differences, due to which all of a sudden, expenditure on certain wells which we have been carrying forward have to be knocked off because we tested them and finally found that it is just not worth to carry in our books as it is of no use and it is not going to give us any presence of hydrocarbons.

**Aishwarya:** So should I presume that the remaining ₹ 4000 odd Crore are…?

**A. K. Srinivasan:** They are still under the testing processes, so we cannot immediately say that the entire amount is going to be knocked off. May be entire amount get converted into oil and gas assets and then taken it to producing property. It all depends on the well to give a resultant oil and gas presence.

**Aishwarya:** I appreciate. And the last thing, sir, these 8 wells which we are supposed to drill current year for the deepwater how much we will be spending on…?

**A. K. Srinivasan:** We have done only 2 wells in the quarter.

**Aishwarya:** Yeah. No. I am asking for the full year how much…?

**A. K. Srinivasan:** 8 wells.

**Aishwarya:** Yeah. For 8 wells how much we will be spending?

**A. K. Srinivasan:** See, it all depends on the depth of the well. If the water depths are higher, then the expenditure on those particular wells is going to be more than the wells of normal water depth. So we cannot really estimate and we also can't be certain to say in an exploration phase that drilling a well will just take about 15 days or 20 days or X number of days or fixing a certain distinct time. Sometimes I have to dig the well for longer duration. Then the cost of the rig which is the major chunk of the expenditure in this particular activity automatically gets booked against those wells.

**Aishwarya:** So how much…?

**A. K. Srinivasan:** If I may get a rig within a shorter period of time, then my cost of the well is lesser.

**Aishwarya:** Yeah. So how much we have budgeted…?

**A. K. Srinivasan:** It cannot be a determined cost upfront.

**Aishwarya:** I got your point, sir. I just want to know what is the budgeted amount for these 8 wells if you have any?

**A. K. Srinivasan:** 8 wells budgeted for deepwater should be around ₹ 1500 Crore.

**Aishwarya:** ₹ 1500 Crore? And, sir, how much we spent previous year on this deepwater drilling?

**A. K. Srinivasan:** Last year, Most of the deep water wells were the appraisal wells and they were all showing the presence of hydrocarbon and they will be definitely getting converted into the producing property. There were 8 appraisal wells which we had undertaken in 98/2 and in Mahanadi block where we did only 3 wells and these three wells are having presence of hydrocarbons. This will also become part of my producing property subsequently.

**Aishwarya:** Sir, my question is how much we've spent on deepwater drilling previous year?

**A. K. Srinivasan:** Those expenditures? It was about less than ₹ 2000 Crore.

**Aishwarya:** Thank you, sir. Bye.

**Moderator:** Thank you very much. I'd like to repeat, participants, should you have any question, you may please press "0" and "1" on your telephone keypad. I repeat, participants, should you have any question, you may please press "0" and "1" on your telephone keypad. And here comes the next question from Mr. Prashant from Axis Capital. Your line is unlimited. You may go ahead and ask your question.

**Prashant:** Yeah. Hi. Thanks for the opportunity. Just wanted to check in this quarter how much royalty we have paid to Gujarat government?

**A. K. Srinivasan:** See, Gujarat government royalty was about ₹ 600 Crore.

**Prashant:** And this is on the gross crude realization, right?

**A. K. Srinivasan:** Yeah. Pre-discount, I mean, pre-discount.

**Prashant:** Yeah. And the Oil India management just said that Assam government has raised some tax charges where tax will also be calculated on the gross realization. So do you foresee Gujarat government also, you know, starting raising demands towards on the tax front? Will these liability of roughly ₹ 12,000 Crore would be upward the revised after this event?

**A. K. Srinivasan:** No. I can't get your point. Can you please come back again?

**Prashant:** Yeah. Sure. See, basically, this roughly ₹ 12,000 Crore of royalty payment that we are talking about that is with reference to only royalty payment. Now, Assam government has demanded around ₹ 1300 Crore from Oil India which is towards higher VAT being charged on the gross crude realization versus the net crude of realization earlier. So I just want to check this ₹ 12,000 Crore liability that we have whether this will be upward revised to you too taking to account the higher VAT payment also?

**A. K. Srinivasan:** As demanded by Assam?

**Prashant:** Yeah.

**A. K. Srinivasan:** No, we are not taking into any of this from Assam Govt..

**Prashant:** Sure. Thanks. Thanks a lot.

**Moderator:** Thank you very much. We have the next question from Mr. Mithen from HDFC Mutual Fund. Your line is unmuted. You may go ahead and ask your question.

**Mithen:** Good evening, sir. Just wanted to know the government has extended the deadline for the new gas prices for about three months. In the interim, are you sort of on your side seeing any progress on the government side to form up a new gas price or it's completely gone silent on that part?

**A. K. Srinivasan:** See, as far as the deferment of the orders by government, they still hold on to it and we don't know whether it is fully gone. We just can't comment unless the government notify something on that. As of now, it has been stalled and deferred over and we presume some decisions should be made by September. But as of now, we are not aware about it.

**Mithen:** So being parties to that decision, has the government sought any data or has engaged with you at any level at all or not really?

**A. K. Srinivasan:** No. Regarding the gas price, basically the issue is mainly on the Rangarajan's committee recommendations and that report will be reviewed by some other high level committee which has been constituted by the present government. As far as the data is concerned for building up the entire recommendations by the earlier committee, all the data were in place with them. And there is nothing additional to be added by anyone or any company. It is only the call by the government that has to be taken up for decision.

**Mithen:** Sure. And has the government taken any steps to sort out the royalty issue with the Gujarat government?

**A. K. Srinivasan:** Supreme Court has granted stay to ONGC and has asked both the government, state government as well as the central government to file their explanatory notes to the Supreme Court. The process of filing the notes by the respective governments are in action. So we are not aware exactly what's the final position on this, but as far as ONGC is concerned, we are still holding on to the stay granted by the Supreme Court.

**Mithen:** And where has sort of hearings preceded in the Supreme Court is it over or is it still on?

**A. K. Srinivasan:** No. No. It is still continuing. They were to…

**Mithen:** Yet to commence? Okay.

**A. K. Srinivasan:** Once the explanatory notes are submitted by the Central & the State Government to the Supreme Court, further hearing on the case shall commence.

**Mithen:** Okay.

**A. K. Srinivasan:** So it is not solved. It's an ongoing. It's very much delayed.

**Mithen:** Okay. Now, I was asking whether the hearings have commenced and whether they have been completed?

**A. K. Srinivasan:** No. The filing of the replies by the government is awaited. The Supreme Court will commence the hearing once the replies are submitted by the respective government.

**Mithen:** Okay. Sir, you mentioned this number of ₹ 6 billion as royalty paid to the Gujarat government. What part of the 6 billion would have come to the P&L and what part is just the deposit?

**A. K. Srinivasan:** From 1st February till 30th of June, ₹ 858 Crore is shown under the deposit. And if we look only for this three months, it would be ₹ 649 Crore as deposits.

**Mithen:** Okay. So the ₹ 600 is just the deposit and besides there has been more expensing of royalty and that is separate?

**A. K. Srinivasan:** Yeah. Yeah. That's the normal which we were paying on the post discount price which has been expensed off as royalty. Anything differential between the post and the pre discount price has been taken into the deposit account.

**Mithen:** Sure, sir. Understood. Thank you very much for your answers.

**Moderator:** Thank you very much. We have the next question from Mr. Dixit from Subhkam Ventures. Your line is unmuted. You may go ahead and ask your question.

**Dixit:** Good evening, sir. Sir, just further into this gas price issue, of late, like media reports are suggesting that this new gas price may not be applicable to nomination blocks. So in your opinion, sir, is this possible that they may give you gas only to NELP fields and leave out the nomination blocks?

**A. K. Srinivasan:** We will not be knowing what decisions will go, but as per the recommendations of Rangarajan Committee and the cabinet notes, it says all the gas. So it doesn't differentiate the gas what is produced from the nominated field, and what is produced from the NELP fields. So it is very difficult for us to say how the government is going to take the call on this.

**Dixit:** Okay. So that means government is – This option is open like as far as government is concerned?

**A. K. Srinivasan:** Definitely we can presume that way. The only options are that till they notify or tell us to go ahead on the price.

**Dixit:** Okay. Sir, finally any indication from the government on like for clarity on the subsidy sharing formula as far as oil subsidy is concerned?

**A. K. Srinivasan:** Nothing.

**Dixit:** Okay. Okay, sir. Thank you.

**Moderator:** Thank you very much. We have the next question from Vikash Jain from CLSA. Your line is unmuted. You may go ahead and ask your question.

**Vikash Jain:** Sir, couple of clarifications firstly, on the drywell expenses for the total number you said is ₹ 3479 Crore, is that the total number for the year?

**A. K. Srinivasan:** This is for the first quarter.

**Vikash Jain:** Yes. Sorry, for the quarter. And so, I mean, you mentioned a couple of big write-offs; you said KG98/2 is ₹ 1220 and then another one that you mentioned about ₹ 500 Crore or something, what was that?

**A. K. Srinivasan:** Both these two numbers are for KG 98/2 block.

**Vikash Jain:** But that was southern side of it, southern development side.

**A. K. Srinivasan:** Yeah, both are southern region; both are on the ultra-deep areas.

**Vikash Jain:** Okay. So at the same point of time you've mentioned certain appraisals that you did last year, so of the ₹ 10,000 crore which you are carrying from March about ₹ 3500 crore that you have written-off, of course, there would be a further number added which the number that you would have done for this quarter, but the remaining ₹ 6500 crore that remains you are confident that certain appraisals that you did last year that will possibly not be written-off, so what is that number which you are confident on if you can give a kind of an – you've mentioned about ₹ 2000 crore you spent last year?

**A. K. Srinivasan:** See, it is very difficult to make an assessment of a well, at the exploration stage. Till they really come to a final conclusion, we also as an accountant cannot know what numbers are going to be written-off.

**Vikash Jain:** Okay.

**A. K. Srinivasan:** So it is very difficult for me to tell you a number that what we were anticipating that it will come as a surprise at a particular point of time. All efforts will be there to find more areas to cover oil and gas presence. But when they finally lay their things totally and say they can't give, they reach the dead end, and at that particular point of time they make a declaration of abandonment. But till such time they continue to do all efforts to make use of that cost to fructify into a presence of oil and gas.

**Vikash Jain:** Sure, sir. I completely appreciate it,

**A. K. Srinivasan:** What I want just to emphasize is, it's not one layer we are trying to test but many in the same drilling well. We try all the options of the zones and test it out for any possibility in any zone. If there's nothing, then only they come out with the declaration. But till such time, they carry on all the efforts to test the wells to bring it to the conclusion of presence of hydrocarbon.

**Vikash Jain:** I completely appreciate that, sir, but I mean, just a little while earlier you mentioned that there were certain wells that you had drilled last year where you were pretty confident that there were hydrocarbon shows and that are unlikely to be written-off, so I…

**A. K. Srinivasan:** Mr. Jain, let me clarify to you. What I said while I am carrying in my book as exploration expenditure of ₹ 10,000 crore, of these some of the wells which have been carried for the previous year, which we were trying to test the presence of hydrocarbons for multiple layers which are there in those reservoir. But when we could not succeed in those wells and finally we took a call and abandoned them for closure. But there are wells which I am confident which I told you earlier the appraisal wells which we carried out to delineate the potential of 98/2 and these wells are there still getting carried over as an exploration expenditure in the book. Definitely that will fructify into the producing properties for me tomorrow.

**Vikash Jain:** Correct. So, I mean, I was actually in respect of those wells only, so two things firstly…

**A. K. Srinivasan:** You want to know what is the quantum on that?

**Vikash Jain:** No. No. No. Yeah. Correct. I mean, as per your – I understand that will be a very broad estimate since you would not have a well-wise breakup readily available for each of them, but broadly you said that most of the exploration that you did on the appraisal which was primarily the deepwater appraisal that you did last year there more or less it should be fine, so is that a ₹ 2000 crore kind of a number that we are looking at which has lower risk of the numbers that you are carrying?

**A. K. Srinivasan:** Let me tell you one thing. As per our guidance note which we have changed during the last year that is 2013-14, wherein earlier we used to write-off the wells which were drilled and carried forward beyond two years. After a change in policy, the wells which are even having the slight presence of oil and gas and we are going to develop them in future, we are carrying those expenditures in our books as exploration cost and we have already set a guidelines on this. Wherever the deepwater wells are there, they will be carried in our books for 7 years to finally take it to the development phase or shallow water 5 years and for on-land wells 2 years. So these are the guidelines which have been already set in from last year onwards and based on which all my exploration efforts we try to monetize or put to development phase within the time frame of 7 years in deep water, 5 years in shallow water and 2 years in on-land. So wherever the presence of hydrocarbon are there they are getting carried; and may get converted into producing assets and that is why I feel there is no major risk involved with these exploration expenditure.

**Vikash Jain:** Okay. So, sir, anyway what is the current carrying amount that you have after, you know, some additions in this quarter and whatever has been written-off in the exploration?

**A. K. Srinivasan:** It is ₹ 10,000 crore.

**Vikash Jain:** It is 10,000? So it has not really changed, I mean, because a similar amount has been added this quarter?

**A. K. Srinivasan:** No. Out of this ₹ 10,000 crore, ₹ 2100 crore is pertaining to 98/2.

**Vikash Jain:** Okay. Okay. Sure. And, sir, just one final thing. You mentioned that a high level committee is looking at recommendations of the Rangarajan Committee.

**A. K. Srinivasan:** Not the high level committee. What I said, it has been put to review by Mr. Suresh Prabhu who has been designated by the new government along with two other members in that. I just don't recollect the other names. And they have been asked to look into this and review. I don't think, the new committee has been constituted to re-look into the entire pricing mechanism. It is only to look into the suggestion or the recommendations of Rangarajan Committee how and what was the Rangarajan Committee had adopted so as to have a better clarity. And also they are trying to link with the user groups, the power, the fertilizer and then come out with the recommendations or suggest to the government how to go forward.

**Vikash Jain:** Sure, sir. Thank you so much, sir. Thanks a lot.

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

**Manish:** Yeah. Thank you, sir, for taking my question. It's related to D5 or 98/2 block you did talk about its viability being at around $ 6.5 to $ 7 per mmbtu. I am just wondering if you could also share just the assumption regarding capital cost that you need to develop this field?

**A. K. Srinivasan:** See, actually, we are going for engagement of a consultant to do this development plan, FDP for us. So under the contract, the consultant comes out with the total optimisation of the CapEx, then only the numbers can be frozen. As of now, it's all ballpark number which we can be talking of in the air. It is to the tune of about $ 5 billion, but we are not very sure what the exact number through the FDPs because when we do an FDP, we consider all optimisation mechanic. It is just not a sheer number for creating liabilities. We try to find what could be the best way so that we can extract oil, what could be the facility, what could be the land fall facility, what could be the evacuation process etc. All this come into place which can be studied by a consultant and then only the number actually gets frozen. It's all in the air. We can't talk. It's a ballpark number of $ 5 billion.

Crore

**Manish:** Sure, sir. Sure. And, sir, could you also share some of or the range of production that you might be looking from that field?

**A. K. Srinivasan:** 98/2?

**Manish:** Yes, sir.

**A. K. Srinivasan:** Yeah. 98/2. Basically the reservoir base is about 100 MMT, of which we will be recovering to the extent of normal recovery rate of 25%. So 25 MMT of oil will be produced and gas estimate is about 3 tcf and we expect the peak production to be about 22 mmscmd.

**Manish:** Okay. Okay. Thank you.

**Moderator:** Thank you very much. Participants, should you have any more question, you may please press "0" and "1" on your telephone keypad. So at this time, there are no more questions from participants. I would like to hand it over back to the management for any final or closing comments. Over to you, sir.

**A. K. Srinivasan:** So thanks. We are thankful to all the participants who have participated in this Q1 FY'15 earnings call. And, anyway, we are sorry because of the adoption of Q1 FY'15 results by the Board got delayed and we had to keep all the people waiting to take this ConCall. We apologise for the same. Thank you very much once again.

**Moderator:** Thank you very much, sir. I would like to thank all the analysts for joining us. Hope you all have spent a useful time. With this, we conclude the conference call for today. Wish you all a great evening ahead. Thank you very much.

**A. K. Srinivasan:** Thank you, sir.